

ANNUAL REPORT OF THE POSTMASTER GENERAL
FISCAL YEAR 1991

*"... we never
sleep, we're
always on, we*

r..."
HE
6315
.A3
NPM



WE'RE ON, 24 HOURS A DAY

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Anthony M. Frank
Postmaster General

Anthony M. Frank

*Our 1991 Annual Report reviews the Postal Service's
efforts to provide better, more efficient service
to its customers. I hope you will find it of interest.*



FINANCIAL AND OPERATING HIGHLIGHTS

	Year Ended Sept. 30, 1991	Year Ended Sept. 30, 1990	Year Ended Sept. 30, 1989	Year Ended Sept. 30, 1988	Year Ended Sept. 30, 1987
Pieces of mail (millions)	165,851	166,301	161,603	160,954**	153,931
Percent change	-0.3	2.9	0.4	4.6	4.4
(dollars in millions)					
Revenue from operations	\$ 43,323	\$ 39,201	\$ 37,979	\$ 35,036	\$ 31,528
Percent change	10.5	3.2	8.4	11.1	4.7
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation*	\$ 562	\$ 453	\$ 436	\$ 517	\$ 650
Percent change	24.1	3.9	-15.6	-20.5	-9.2
Total operating expenses	\$ 43,291	\$ 40,490	\$ 38,371	\$ 36,119	\$ 32,520
Percent change	6.9	5.5	6.2	11.1	5.9
Operating income (loss), net of interest	\$ 432	(\$ 874)	\$ 61	(\$ 597)	(\$ 223)
Extraordinary retroactive assessment	(\$ 1,901)	—	—	—	—
Net (loss) income	(\$ 1,469)	(\$ 874)	\$ 61	(\$ 597)	(\$ 223)
Fixed assets (net of depreciation)	\$ 10,681	\$ 9,421	\$ 8,833	\$ 7,801	\$ 6,628
Percent change	13.4	6.7	13.2	17.7	18.6
(Deficiency) equity	(\$ 2,747)	(\$ 1,278)	(\$ 402)	(\$ 460)	\$ 138
(in units indicated)					
U.S. resident population January 1					
estimate (in millions)***	250.9	248.2	245.7	243.5	241.3
Percent change	1.1	1.0	1.0	0.9	0.9
Pieces of mail per capita	661	670	658	661**	638
Percent change	-1.3	1.8	-0.5	3.6	3.6
Operating revenue per capita	\$ 172.68	\$ 157.96	\$ 154.55	\$ 143.89	\$ 130.67
Percent change	9.3	2.2	7.4	10.1	3.8
Operating expense per piece of mail	26.10¢	24.35¢	23.74¢	22.44¢**	21.13¢
Percent change	7.2	2.6	5.8	6.2	1.4
Operating revenue per piece of mail	26.12¢	23.57¢	23.50¢	21.77¢**	20.48¢
Percent change	10.8	0.3	7.9	6.3	0.2
Net (loss) income per piece of mail	(0.89¢)	(0.53¢)	0.04¢	(0.37¢)**	(0.14¢)
Career employees	748,961	760,668	777,715	779,083	765,338
Percent change	-1.5	-2.2	-0.2	1.8	2.7

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional statute. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

** Beginning in Fiscal Year 1988, volume data was recast to report Penalty and Franked mail within their classes. Volume data for 1987 is not comparable.

*** 1987-1990 data recast to reflect 1990 census information.



During Fiscal Year 1991, I had the honor of serving as Postmaster General as the Postal Service observed its 20th birthday on July 1. I therefore benefited from the efforts of the seven Postmasters General and millions of postal people who preceded me in establishing this businesslike public service owned by and operated for the American people. Throughout our nation on that 20th birthday, the men and women of the Postal Service had a brief respite from the rigors of delivering the country's mail to reflect — along with their neighbors and fellow citizens they serve — on the progress we have made during our first two decades. Then we went back to work on the difficult challenge of maintaining our commitments to quality service and cost containment, the two principal components of what we sought to make a “Year of Balance.”

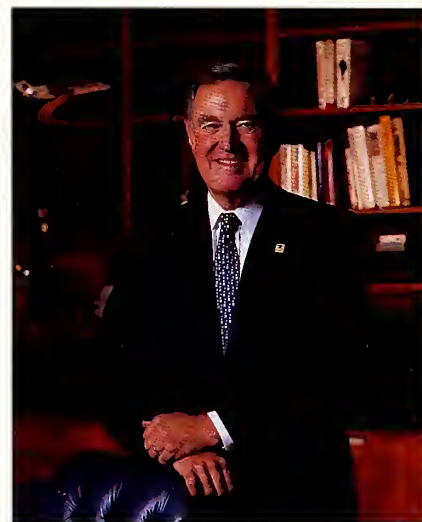
Balancing cost containment and service quality is important because quality is a way of life for companies that wish to remain competitive in the 1990s. In Fiscal Year 1991, the Postal Service took the first steps to develop a total quality process. We began an examination of our cultural values and our customer relationships. We defined quality as satisfying the expectations of our customers the first time, every time.

We recognize that doing things right the first time is wholly consistent with our efforts to maintain balance between costs and service. Mistakes cost dollars and reduce customer satisfaction. By year's-end, we made progress in quality improvement. And, we saw measurable success in two independent measures of service quality:

- First-Class delivery performance, as independently measured by the accounting firm Price Waterhouse against published delivery standards for overnight, second-day and third-day geographic areas, indicated that, on average, 8 in 10 letters arrive on time. In the fourth quarter of the year, the first for which prior year data exist, overnight delivery performance improved to 83 percent, up 2 percent from the previous year.
- Overall customer satisfaction with the Postal Service also remained high in the fourth quarter of Fiscal Year 1991. After evaluating independent surveys incorporating the views of 180,000 Americans on 37 aspects of service quality (ranging from courtesy to complaint handling and the performance of window clerks and letter carriers), Opinion Research Corporation noted that 85 percent of the American households believe the service they receive from us is excellent, very good or good.

Cost containment efforts, of paramount interest to our customers, included two important successes:

- Our automation program was accelerated, and its benefits are readily apparent. We reduced career employment by almost 39,000 from our peak in May 1989, resulting in a savings



*Postmaster
General
Anthony M.
Frank*

of \$1.1 billion in wages and benefits alone. By 1995, an additional 45,000 career positions will be eliminated and the annual savings from automation will grow to approximately \$4.5 billion. During the year, I had the opportunity to accept Xplor International's "Innovator of the Year" award on behalf of the Postal Service for our technological and financial commitment to automation. Xplor International is an organization that provides forums, programs and services to the electronic document systems community. Xplor saluted us for imaginative applications of new technology and estimated that its member firms will save more than \$1 billion annually — up to 21 percent of their postage costs — because of ZIP+4 and barcoding incentives.

- Our labor contracts, both negotiated and arbitrated, were responsible and fair agreements consistent with customer interest in moderate wage settlements. The new agreements, some covering four years for the first time, met our goal of fairness to both customers and employees. A feature of some, but not all, of the new contracts is a Striving for Excellence Together (SET) Program, which will award covered workers with lump-sum cash payments when measurements of customer satisfaction and financial performance improve. The SET program is an excellent example of balancing costs and service, linked to higher employee commitment.

These successes were counterbalanced by three unplanned developments that made keeping our financial balance exceedingly difficult: recession, reconciliation of the federal budget, and the rate case.

- The economic recession hurt the nation's business. Although it is impossible to estimate the precise impact on mail volume, clearly the poor economic conditions, along with the rate increases, contributed to our first decline in volume in 15 years. Volume was off 450 million pieces during 1991. This is a reduction of only 0.3 percent, but nonetheless a reduction! The last time volume failed to grow was in 1975, when another recession — arising from the oil shocks of the period — reduced volume compared to the previous year by more than 832 million pieces, or 0.9 percent.

- After our budget was established, we were again directed by the Congress to absorb additional expenses in an effort to reduce the federal budget deficit. As a result of the Omnibus Budget Reconciliation Act of 1990 (OBRA), approximately \$2.4 billion of additional costs for retiree health and cost-of-living allowance (COLA) benefits were transferred to the Postal Service for Fiscal Year 1991, including \$1.9 billion that was retroactive to 1971. The OBRA's of 1985, 1987, 1989, and 1990 may impact the costs of future years by as much as \$9 billion through Fiscal Year 1995.

- The rate case became a 20-month marathon that culminated after the fiscal year ended in the rejection of the proposed 30-cent stamp. The combined effect of the recession and the Postal Rate Commission's recommended 29-cent First-Class rate and higher-than-requested increases in third-class rates contributed to a decline in mail volume, resulting in a revenue shortfall of \$984 million less than planned.

These developments contributed to our operating income, net of interest, of \$432 million,

before the OBRA of 1990 retroactive assessment of \$1.9 billion changed this result to a net loss of \$1.5 billion. This net loss should not obscure the progress we made toward our corporate strategic goals. As depicted in the pages of this annual report, the dedicated men and women of the Postal Service worked diligently — often behind the scenes — to provide our customers with quality service at reasonable rates.

The purpose of this annual report, then, is to provide balance — to highlight progress and acknowledge our financial results — while we underscore that the strength of our nation's postal system is drawn from the around-the-clock efforts its people make to move the mail.

No recounting of Fiscal Year 1991 would be complete if I failed to call attention to three unprecedented efforts mounted by the Postal Service and its people:

- We completed one of the largest military mail initiatives in Postal Service history during Operation Desert Shield/Desert



Postmaster General Anthony M. Frank and President George Bush unveil stamp honoring Operation Desert Shield/Desert Storm troops.

Storm. Throughout this conflict, we helped keep open the links between our troops and their families and friends throughout the United States by building a massive international mail processing system almost from scratch. American servicemen and servicewomen were granted free mailing privileges to write home, and they received more than 60 million pounds of morale-sustaining mail, most of it parcels. Prior to the conflict, average daily mail volume to the region was 2,000 pounds. That swelled to an average daily volume of 275,000 pounds during the operation, with a peak of 600,000 pounds per day during the holidays.

Our service in the Gulf War had a second dimension, as more than 2,800 postal employees were activated during the crisis. One member of our postal family was killed in the conflict. Our troops' homecomings were celebrated in two ways. Post offices throughout the country flew banners bearing a symbolic yellow ribbon and the simple message "Thank You. Welcome Home." Four hundred million commemorative stamps were issued, bearing the image of the Southwest Asia Service Medal awarded to all members of the U.S. Armed Forces who served in Operation Desert Shield/Desert Storm. We were honored that President George Bush participated in the issuance of the stamp.

- We also became immersed in a nationwide effort to promote literacy among youth and adults. A reading America is a strong and vibrant America, and literate citizens are essential to the well-being of the Postal Service and its business customers.

We piloted adult literacy programs in Greensboro, NC, and expect these efforts to expand

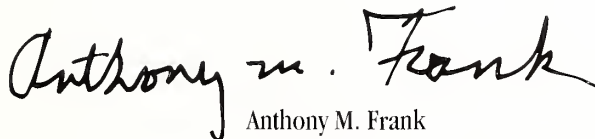
during the next year. We also worked with numerous literacy advocacy groups to promote reading among our nation's youth. A highly successful expansion of the in-school postal system concept, called "Wee Deliver," involved students and teachers in more than 6,000 of our nation's elementary schools.

- We continued to realize our objectives of pride, patriotism, partnership and profit through activities associated with our sponsorship of the Winter and Summer Olympic Games. Our sponsorship stands as an example of accepting reasonable risks to increase our Express Mail, Priority Mail and philatelic net revenues in order to take pressure off rates. It has been a key motivator of our people as well.

By year's-end, we had realized net revenue from the Olympic sponsorship of approximately \$20 million. The earnings are almost 40 percent of our three-year Olympic sponsorship net revenue goal of \$55 million.

In July, thousands of postal employees had an opportunity to "Touch the Olympic Torch" because we sponsored the official torch run from Pikes Peak, CO, to Los Angeles, CA, to open the Summer Olympic Festival. Employees who participated were excited and proud that the U.S. Postal Service is associated with the excellence that the Olympic Games symbolize. As the games unfold in 1992, we expect these beneficial feelings and experiences to spread to all employees nationwide.

In summary, Fiscal Year 1991 was a year of balance, although not the specific balance we sought and expected. Factors outside our control prevented us from achieving all our financial goals; factors within our control allowed us to make significant progress toward our strategic goals for increased customer satisfaction, measured independently, keeping increases in our costs below inflation, and greater employee commitment. Throughout the year, the men and women of the Postal Service worked diligently around the clock to meet their responsibilities to the American people. We delivered.



Anthony M. Frank

Postmaster General of the United States

P.S.: On January 7, 1992, I announced my decision to resign as Postmaster General and return to the private sector. The last four years have been productive and satisfying ones, and I want to thank every employee for the day-in, day-out dedication that moved both the mail and the Postal Service forward. It is such spirit and drive that will continue the progress we have made to serve our customers and our nation.

12:13 AM



*"Automation
saves jobs and
helps the Postal
Service operate
more efficiently
and keeps us
competitive."*

*Tess Antes
Mail Processor
Long Beach, CA*



STATE-OF-THE-ART TECHNOLOGY FOR A SERVICE THAT NEVER SLEEPS

Around the clock, dedicated postal employees work to collect, process and deliver the nation's mail. At midnight, when most Americans are home asleep, more than 200,000 mail processing employees are just beginning their work, transforming an ocean of raw mail into orderly flowing channels of letters, cards, parcels, advertising, magazines and newspapers. Employees have a little more than five hours to sort the mail by ZIP Code before routing it to its delivery destination. Operational efficiency is critical.

To help achieve greater efficiency and lower operating costs, the Postal Service invested more than \$300 million for capital equipment to automate its mail processing operations during the fiscal year. In Fiscal Year 1991, it continued to make significant progress in the transition from manual and mechanized mail processing operations to automation. Since 1987, more than 2,000 optical character readers, bar code sorters and other pieces of equipment have been installed at postal facilities throughout the country to increase the efficiency of letter mail processing. The Postal Service's deployment of automation will continue over the next few years. Approximately 12,000 pieces of automated sorting equipment will be deployed by the end of 1995.

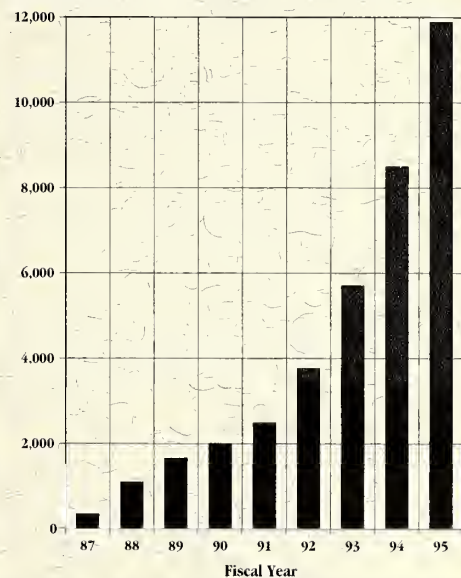
DOING MORE WITH LESS

With approximately 20 percent of its automated equipment in place, the Postal Service has reduced its work force through attrition by almost 39,000 positions since May of 1989, while still processing 165.9 billion pieces of mail during the fiscal year. If these 39,000 positions had been on the rolls during Fiscal Year 1991, Postal Service expenses would have been \$1.1 billion higher. By 1995, as a result of automation, the postal work force will be reduced by another 45,000 career positions. The Postal Service's planned cumulative productivity improvement through 1995 is 4.8 percent. Cumulative productivity two years into the Postal Service's six-year Strategic Plan remained slightly ahead of plan at the end of Fiscal Year 1991.

Throughout the year, progress continued in advanced research leading to new equipment, improved address readability by machines, and facility designs to meet the needs of the Postal Service and its customers in the 1990s and into the 21st century.

CUMULATIVE AUTOMATION DEPLOYMENT

(PIECES OF EQUIPMENT)



The Postal Service's automation program involves a massive deployment of new equipment. By the end of 1995, approximately 12,000 pieces of automated equipment will have been deployed.

Automated equipment like the mail processing barcode sorter (in photo at left) is revolutionizing operations in post offices across the country by sorting prebarcoded mail more efficiently. In Fiscal Year 1991, the Postal Service completed the installation of 1,369 mail processing barcode sorters.

1:55 AM



"Time is money. As a ramp clerk, if I can save the Postal Service money by making sure that mail is being flown in on time, then the Postal Service and our customers are winners."

*Jeff Neudahl
Ramp Clerk
St. Paul, MN*

LINKING ALL POINTS, NEAR AND FAR

Each day, postal employees face a carefully calculated series of dispatch and transportation schedule deadlines as they work to transport an average 550 million pieces of mail to their destinations. Many of those deadlines fall in the gloom of night, especially those for meeting next-day delivery commitments for Express Mail.

In Fiscal Year 1991, the Postal Service stepped up its emphasis on improving domestic and international Express Mail service. After months of deliberation and open competition to determine the most advantageous location, the Postal Service selected Indianapolis, IN, as the site for the National Eagle Air Network hub. Serving 33 major metropolitan areas through the hub, the network is designed to enhance the consistency of on-time delivery of Express Mail and Priority Mail letters and packages. The National Eagle Air Network hub is expected to be in service by early 1993.

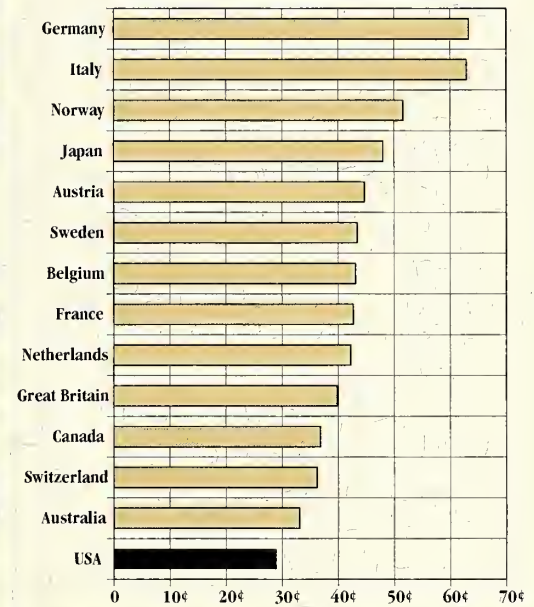
TRACKING THE MAIL

To improve customer convenience, the Postal Service awarded a five-year contract in Fiscal Year 1991 to deploy a Comprehensive Tracking and Tracing System (CTT) so that customers can learn the status of their Express Mail shipments by calling a 24-hour toll-free number. Tested in 10 cities, CTT currently is being deployed nationwide and will be fully operational in 16,000 postal retail facilities at the beginning of 1992.

To generate more revenue and help keep postage rates down, the Postal Service has developed revenue enhancement plans for Express Mail, Priority Mail, International Mail, and philatelic and retail programs.

During 1991, the Postal Service also developed its first comprehensive international mail business plan and expanded the International Express Mail Service network to 128 countries worldwide, including cities in Germany, the former Soviet Union, Indonesia and Turkey. Called the WORLDPOST Business Plan, it has three major objectives: to meet customer needs in identified international markets, to demonstrate the price and service capabilities of the Postal Service against its competitors, and to increase the annual corporate revenue contribution from international mail service.

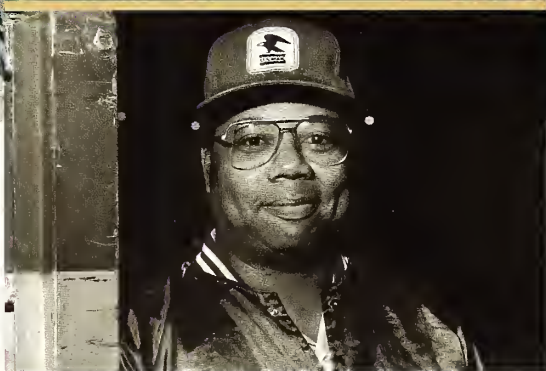
COMPARISON OF FIRST-CLASS RATES



At 29 cents, the U.S. rate remains the best value among these industrialized nations. The chart is based on foreign exchange rates as published in the Washington Post, Dec. 13, 1991.

A major 1991 air transportation-related development for the Postal Service was the selection of Indianapolis, IN, as the site for the National Eagle Air Network hub.

4:12 AM



"Mail volume is the life-blood of the Postal Service. Without it, we cannot survive."

*William D. Brown, Jr.
Motor Vehicle Driver
Long Beach, CA*

FEELING THE PINCH OF A TOUGH ECONOMY

The dispatch dock is the best place to witness the massive amounts of mail that flow through mail processing facilities. Containers are loaded into a steady stream of trucks traveling to outlying delivery offices. Yet, even on congested docks, employees could tell mail volume was down in 1991, spelling a tough

financial year for the Postal Service, as it was for every company affected by the recession.

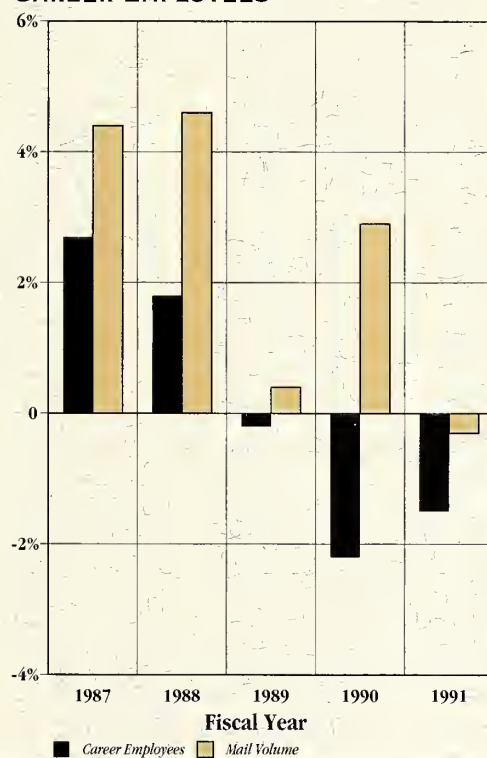
The Postal Service handled 165.9 billion pieces of mail, about 450 million pieces less than the year before, the first decline in mail volume since 1975. Third-class volume — the second largest category of mail — declined by 1.3 billion pieces as many business mailers, reacting to the 1991 rate increase and the recession, made fewer, more selective mailings. However, International Express Mail volume grew vigorously, recording a gain of 16 percent over 1990.

PROFIT BECOMES LOSS

The Postal Service realized an operating income, net of interest, of \$432 million. However, the Postal Service recorded a \$1.9 billion one-time accounting adjustment to reflect a requirement imposed by the Omnibus Budget Reconciliation Act of 1990 (OBRA) to retroactively assume financial responsibility of annuitants' cost-of-living allowances and health benefits. This one-time adjustment of \$1.9 billion changed the \$432 million income to a net loss of \$1.5 billion.

Total revenues of \$44.2 billion were \$984 million, or 2.2 percent, less than planned due to the effects of the recession and postal rates significantly different than planned. Total expenses of \$43.8 billion were \$481 million, or 1.1 percent, less than planned. With a 30-cent stamp, rates likely would have remained stable until 1995. With the 29-cent stamp, another rate increase may be necessary in early 1994. As a result of the difficulties experienced with the 1990 rate case, the Postal Service's Board of Governors commissioned an independent study of the rate-making process and is using this report to work with the Postal Rate Commission to examine ways to improve the process.

COMPARISON OF ANNUAL PERCENTAGE CHANGE FOR MAIL VOLUME AND CAREER EMPLOYEES

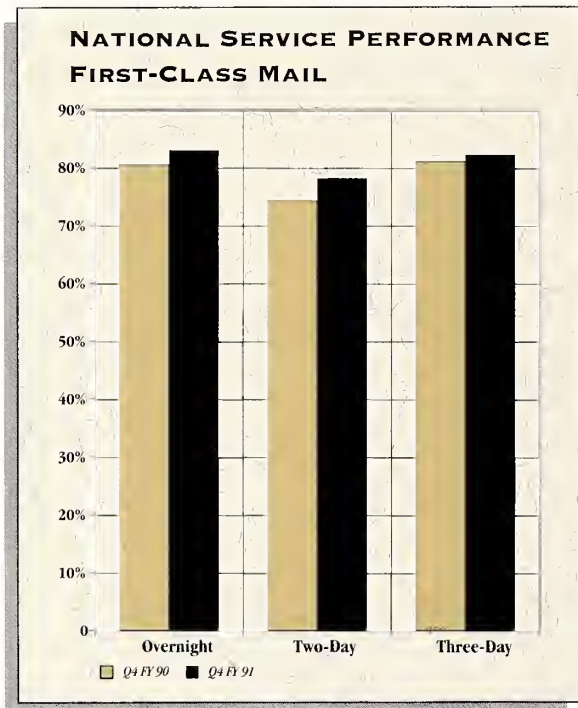


Automation is allowing the Postal Service to process mail with fewer employees. Mail volume declined by 0.3 percent, and the number of career employees dropped by 1.5 percent in Fiscal Year 1991.

During Fiscal Year 1991, the Postal Service continued testing automated and mechanized methods of handling mail dispatched from and received at the back dock of mail processing facilities.

PEOPLE SERVING PEOPLE

As the sun comes up, mail destined for local delivery arrives at post offices around the country. While many Americans are just hitting the snooze button, letter carriers are hitting the time clock to begin their day by sorting their mail into delivery sequence. Meanwhile, at mail processing facilities, dawn signals the end of the work day for thousands of other postal employees who have worked through the night preparing the mail for delivery.



The Postal Service's charter with the American people calls for quality service in delivering an average 550 million pieces of mail six days a week to 120 million business and residential addresses. To reach every mailbox in every community in every state in the country, the Postal Service employs about 232,000 city and 43,000 rural letter carriers.

In 1991, some business mailers began applying Delivery Point Bar Codes to their mail, coding that identifies specific addresses and delivery points that will permit automated equipment to sort letters into walk sequence for delivery.

Advances in technology, customer barcoding and the Delivery Point Bar Code will reduce the time and cost of preparing the mail for delivery. For example, city carriers currently spend an average of four hours in the office. With finer mail sortation

The total number of delivery points served by postal employees on city, rural and highway contract routes increased to 120 million during Fiscal Year 1991, an increase of two percent from the previous fiscal year.

Fiscal Year 1991 was the first full year under external measurement systems. In quarter four, all three categories of First-Class Mail showed improvements over the previous year.

on automated equipment, this time will be cut in half.

GOING THE EXTRA MILE

Because of a national agreement reached in 1991 between the Postal Service and the National Rural Letter Carriers' Association, rural letter carriers are now driving as much as a mile to deliver packages to a customer's door step. Previously, rural carriers were required to make a reasonable effort to attract the customer to the mailbox by sounding the horn of their vehicles when a parcel was too large for the mailbox; only Express Mail items or mail requiring a signature were delivered in person. With this change, customers can now sign a waiver requesting parcels be left at the door in their absence. The change means half a million parcels and other items will be delivered to front doors daily by 43,000 rural letter carriers on mail routes covering 2.6 million miles, with considerable enhancement to customer convenience.

7:10 AM



*"Rural letter carriers nation-
wide go that extra mile
every day to make sure we
deliver for our customers
because ... we care!"*

*Jan Sorenson
Rural Carrier
Maple Grove, MN*

8:00 AM



"Our sponsorship of the Olympics makes me feel good ... and real proud ... to be a Postal Service employee. I think that people who feel good about themselves in their job do a better job while they're on the job."

Greta Cofield
Postmaster
Framingham, MA



BREAKING NEW GROUND WHILE SUPPORTING AMERICA'S OLYMPIANS

Raising the flag is a daily activity deeply rooted in the history and tradition of the Postal Service. It identifies the post office as a businesslike public service owned by the American people. It is a symbol of the Postal Service's pride in America, and its two-centuries-old commitment to serving the needs of its customers.

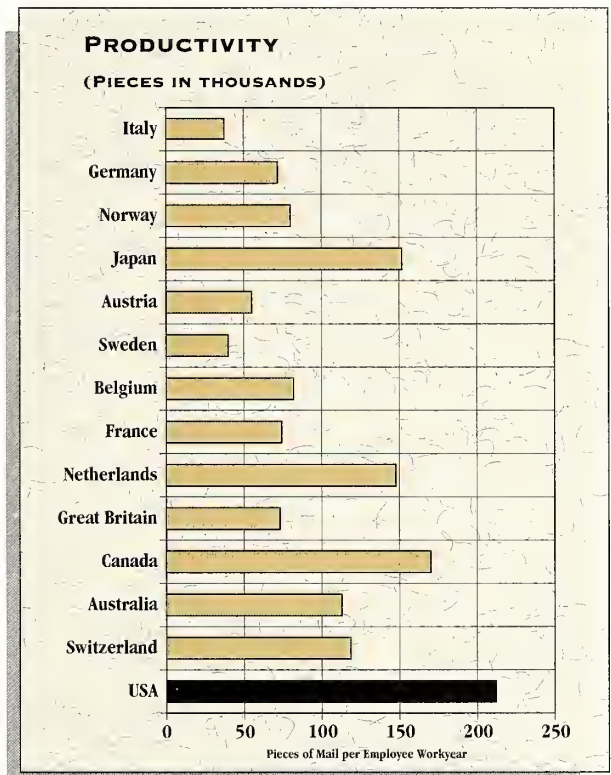
Postal retail operations are huge. Some 40,000 post offices, stations and branches serve the retail needs of seven million customers on an average day, as employees serve customers by selling stamps, weighing and postmarking packages, accepting mail and providing other postal and governmental products and services. To meet America's postage needs in 1991, the Postal Service printed more than 47 billion stamps and stationery products. More than 16 million American businesses and individuals rely on the security and convenience of post office boxes for receipt of their mail.

OLYMPIC SPONSORSHIP

In 1991, the Postal Service began raising another flag over post offices, a flag of innovation and creative marketing as a sponsor of the 1992 Olympic Games. The Postal Service and 31 partner postal administrations around the world are the "Official Expedited and Package Couriers" for both the Winter Games in Albertville, France, and the Summer Games in Barcelona, Spain.

Affiliation with the Olympics has enhanced employee morale and inspired and rewarded excellence in the workplace. More than 70,000 employees have been recognized for outstanding performance through Olympic-related programs. By fiscal year's-end, the Postal Service had realized a net profit of approximately \$20 million, well on its way to achieving the Olympic sponsorship revenue goal of \$55 million over three years, which will help keep postage rates down.

Olympic sponsorship also reflects the Postal Service's commitment to community support. During the 1992 Games, USA/Olympic flags will fly above more than 34,000 postal facilities, rallying the nation in support of its finest athletes.



The United States has the world's highest postal productivity rate among the industrialized nations of the world. Reports from foreign administrations are not always available for the same calendar year or fiscal year providing full data.

Olympic sponsorship supports the Postal Service's traditional strategic goals of quality service, provided at reasonable rates by dedicated employees, to mailing customers here in the United States and overseas. During the 1992 Games, USA/Olympic flags (in photo at left) will fly above more than 34,000 postal facilities in support of America's finest athletes.

9:08 AM



"We want our customers to know we are committed to providing them quick, quality service."

*Linda Ruff
Finance Clerk
Greensboro, NC*

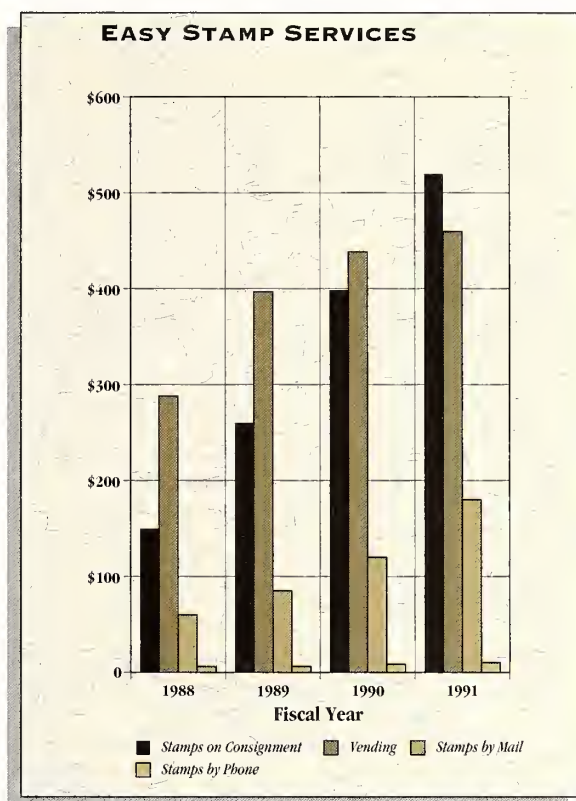
EXPLORING WAYS TO IMPROVE CUSTOMER CONVENIENCE

The Postal Service also explored a variety of ways to better serve retail customers in 1991. One of the creative innovations was a pilot test initiated in the Greensboro, NC, Field Division to reduce waiting time in postal lobbies by serving customers in five minutes or less. More than 700 post offices in the Greensboro Division participated in the five-minute test, which proved to be a success.

"Project Pride," a lobby improvement program, was developed by the Westchester, NY, Field Division to create an attractive and professional environment for customers and postal employees. The Postal Service also established a policy to acknowledge customer complaints within 24 hours, and improve retail transactions by encouraging employees to Greet, Inquire, Suggest, and Thank their customers under the "G.I.S.T. of Quality Service" Program.

Stamp purchasing convenience received continued emphasis in 1991. Responding to the popularity and accessibility of automatic teller machines (ATMs), the Postal Service issued the Statue of Liberty Torch stamp, a self-adhesive paper stamp, for dispensing through ATMs. By the end of the fiscal year, customers were able to buy stamps at 400 ATMs through three participating banks in several cities. ATM services were also available at 21 postal facilities by the end of the fiscal year.

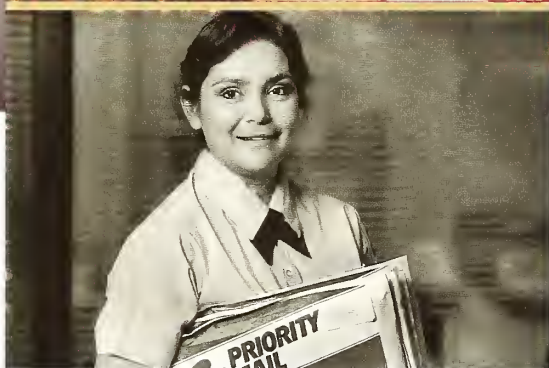
To expand customer convenience and satisfaction, the Postal Service opened new retail facilities called "Postal Stores of the Future." The retail stores offer value-added service and generate new revenue by combining traditional services with information technology in a business setting. To date, 21 Postal Stores of the Future are open for business across the country.



Postal customers purchased \$1.17 billion in stamps using convenient Easy Stamp Services.

Serving retail customers in five minutes or less (as shown in photo at left) was tested successfully in 700 post offices in 1991. Plans call for expansion of reduced lobby waiting for customers.

10:30 AM



*"We have the best value overnight
with Express Mail and Priority
Mail, if we provide good service."*

*Sylvia Alvarez
Letter Carrier
San Antonio, TX*

SERVICES TO MEET CUSTOMERS' NEEDS

The pace in the business world quickened in 1991 for expedited mail service. Fiscal Year 1991 saw greater emphasis on the service and value of Priority Mail and its special market niche of two-day delivery. During the fiscal year, partnerships with major catalog merchandising firms L.L. Bean, Current, Inc., Park Seed Company and others led the way in promoting Priority Mail. Airports in Dulles, VA, and San Diego, CA, were added to the Express Mail Eagle Network. In addition, the network for next-day service was expanded to 11 new cities, for a total of 47 major markets served.

A PLAN FOR SUCCESS . . .

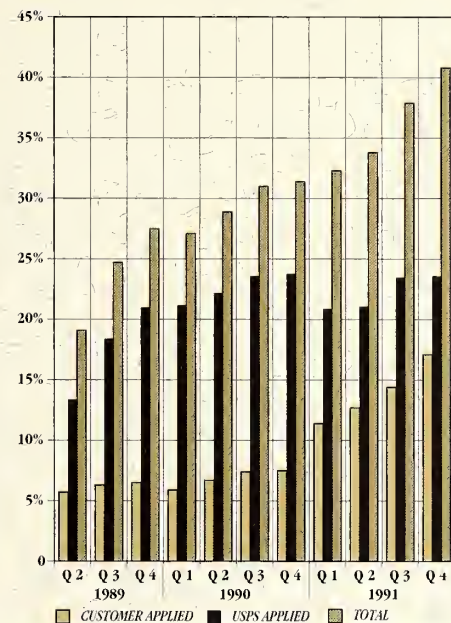
Despite available alternatives, companies still depend on First-Class Mail to balance timeliness with cost for most of their written communications. To help customers and the Postal Service achieve the lowest possible cost, the Corporate Automation Plan calls for all mail to carry bar codes, a series of tiny vertical lines on the face of an envelope that represent the address. Under the plan, 40 percent of mail will be prebarcoded by business customers, 40 percent by postal automated equipment, and no more than 20 percent by the Remote Bar Coding System (RBCS), a video data entry technology developed to automate hand-addressed letter mail and other pieces that cannot be read by automated equipment. In 1991, RBCS pilot sites became operational in Nassau County, NY, and Louisville, KY. An additional 25 sites will go on-line in 1992.

The economics of barcoding are compelling: it costs the Postal Service \$42 to manually sort 1,000 pieces of mail, \$19 per thousand using mechanization, but only \$3 per thousand using automated equipment.

. . . AND SUCCESS FOR THE PLAN

In Fiscal Year 1991, the Postal Service made significant progress with its barcoding strategy, a key indicator of the pace of automation. Fifty-five percent of all letter mail processing was performed on postal automated equipment, compared to 49 percent in 1990. More than 41 percent of all cards and letters carried bar codes by the end of the fiscal year, with the percentage projected to grow to 61 percent by the end of 1992.

BARCODED LETTER MAIL



The volume of letters and cards carrying bar codes grew in 1991 to more than 41 percent of all letter-size mail.

The Postal Service opened 113,000 new Express Mail corporate accounts and generated more than \$139 million in revenue during Fiscal Year 1991.

EFFICIENCY THROUGH CUSTOMER WORKSHARING DISCOUNTS

To help customers lower their mailing costs through prebarcoding discounts and other automation-related solutions to their mailing needs, the Postal Service continued testing the Postal Business Center concept in 1991. Ten sites were established during the fiscal year: Buffalo and Westchester County, NY; Greensboro, NC; Fairfax, VA; Houston, TX; Orlando, FL; Lansing, MI; Madison, WI; and Oakland and San Diego, CA. More are planned in 1992. Initiated in the USPS' Western Region more than three

years ago, business centers are geared to handle the queries and problems of local businesses that need postal assistance.

A key task of the centers is to help small business mailers tap into the widest range of customer discounts ever offered by the Postal Service for automation and worksharing. Opportunities include prebarcoding, dropshipping and saturation mailing.

Approximately 105 billion of the 165.9 billion pieces of mail processed during the fiscal year involved worksharing efforts between the Postal Service and mailers. Filings for additional discounts were made with the Postal Rate Commission for barcoded non-letter-sized mail (called "flats") and palletized second-class mailings. More than 10 billion pieces of mail received automation worksharing discounts in Fiscal Year 1991.

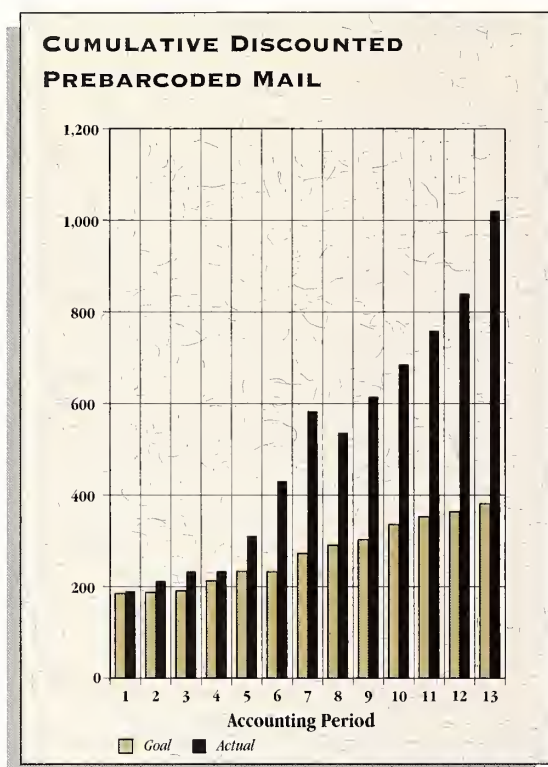
WORKING WITH CUSTOMERS

Based on extensive talks with mailers, a number of automation requirements were changed to

better reflect customer needs and capabilities. To coordinate these efforts, a new Customer and Automation Service Department was created to provide better customer service to small- and medium-size business customers, and to provide all business mailers with guidance on the Postal Service's automation program and potential postage savings.

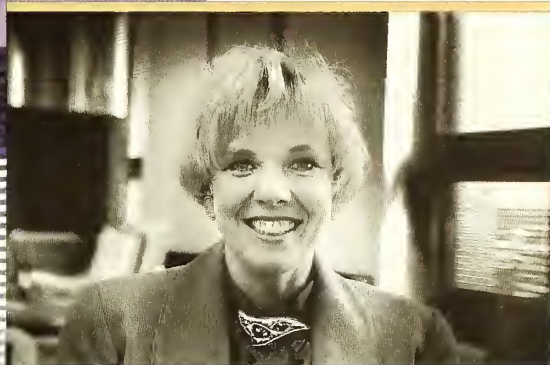
Through a variety of customer outreach programs, such as National Postal Forums, Postal Customer Councils and the Mailers' Technical Advisory Committee, the Postal Service provided educational and training programs for more than 15,000 business mailers during Fiscal Year 1991. An aggressive advertising and promotion campaign aimed at every business and household in the country was launched to build awareness of the benefits of completely and correctly addressing mail.

Postal Business Centers (in photo at right) help business customers get questions answered and problems solved concerning automation, ZIP + 4, advertising by mail, and the full range of postal services.



Customer commitment to automation produced a 500 percent increase in discounted ZIP+4 prebarcoded First- and third-class mail, far exceeding the goals for the year.

12:05 PM



"Automation is good for the Postal Service ... and good for our business customers because we both lower our costs."

*Charlene Sulliran
Strategic Data Analyst
St. Paul, MN*



1:12 PM



*"I think the 'Wee Deliver' Program
is a wonderful idea . . . It shows the
Postal Service cares about
fighting illiteracy"*

*Emily Brown
Window Clerk
Siler City, NC*

DELIVERING MORE THAN MAIL

The Postal Service is universal, having a presence in virtually every community in the country. Its employees are not just public servants, they're good neighbors, too, involved members of their communities.

During National Volunteer Week (April 21-28), the Postal Service recognized 10,000 employees for their donations of time and effort to support their communities. Postal people were saluted for a variety of activities ranging from helping residents of nursing homes, to teaching orphaned children, to overseeing recycling programs in the community. The Postal Service supports community service programs such as Carrier Alert, where letter carriers monitor the mailboxes of elderly customers for unusual accumulations of mail that can indicate illness or injury. During 1991, postal employees donated a record \$32 million to the Combined Federal Campaign, the federal government's unified charity contribution system.

The San Diego Housing Commission presented an award to the Postal Service for its unique role in establishing an overnight shelter for homeless women.

During the war in the Persian Gulf, Americans flooded post offices with letters and packages of love and support to the troops overseas. Mail volume to Saudi Arabia grew from about 2,000 pounds per day before the war began to 600,000 pounds a day during December 1990.

The surge in mail volume posed logistical challenges to postal operations all across the country. Facilities in Dallas, Chicago, New York, San Francisco and Dulles, VA — the five processing points for dispatching mail to Operation Desert Shield/Desert Storm — expanded their shifts and operations. The automation readability team in Fayetteville, NC, designed and printed prebarcoded, machine-readable envelopes and gave them to thousands of families in the community to help speed mail to their loved ones overseas. The Airport Mail Facility at JFK International Airport in New York was cited by General Norman Schwarzkopf, commander in chief in the Persian Gulf, for "the outstanding work you are doing in handling the monumental flow of mail to our troops in the Middle East."

The Postal Service also continued to encourage literacy. Through a joint effort with community colleges, Greensboro, NC, postal officials offered building space for adult reading and writing classes. More than 6,000 elementary schools are taking part in the USPS' "Wee Deliver" Program, where children build reading and writing skills by operating an in-school post office.



Letters from the Sand: The Letters of Desert Storm and Other Wars, a collection of letters, photographs and stamp reproductions from the Persian Gulf war and other wars, was published in Fiscal Year 1991.

The Postal Service's nationwide campaign to help "Stamp Out Illiteracy" gained momentum in Fiscal Year 1991 as more than 6,000 elementary schools agreed to participate in the "Wee Deliver" Program. A postal employee (in photo at left) talks to a group of students about the importance of good customer service.

2:20 PM

*"Nothing makes
me happier
than a smiling
customer."*

Edward Mikesb
Letter Carrier
St. Paul, MN



SERVICE AND SATISFACTION FROM THE CUSTOMER'S POINT OF VIEW

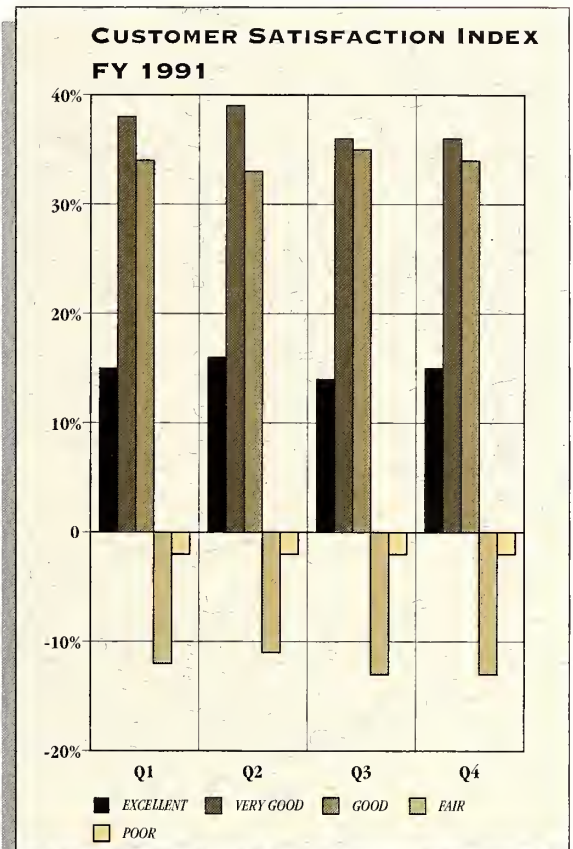
No piece of mail, whether an advertisement, billing statement or remittance, is as important as a letter from home. For years, mail has been high on American's list of favorite things to receive. The tremendous outpouring of support America showed to Persian Gulf servicemen and servicewomen — 60 million pounds of heartfelt cards, letters and packages — says mail is more welcome today than ever.

However, until 1990, the Postal Service did not have an independent system to evaluate how well it was doing in serving customer needs or how frequently the organization met its on-time delivery commitments for First-Class Mail. In Fiscal Year 1991, the Postal Service completed its first year of viewing service from the customer's point of view, and using the data to improve the quality of its service.

HOW DID WE DO?

The External First-Class measurement system (EXFC) independently tracks service performance from deposit to delivery. The accounting firm of Price Waterhouse mailed 1.6 million test pieces to and from 86 cities around the country during the fiscal year and evaluated the timeliness of delivery. EXFC indicated that overnight-committed mail met delivery standards more than 8 out of 10 times, 2 percent better than last year and heading toward the goal of 95 percent on-time delivery.

Opinion Research Corporation was hired to develop a Customer Satisfaction Index (CSI). Every quarter, thousands of Americans are asked to rate the Postal Service on their overall satisfaction with mail service and 37 other service areas, including lobby services, complaint handling, and the courtesy of postal employees. The fourth quarter's 1991 results showed that 85 percent of households nationwide consider mail service "Excellent," "Very Good" or "Good." With full implementation of CSI the Postal Service gets opinions from more than 700,000 customers annually.



Eighty-five percent of the households polled nationwide rated the Postal Service excellent, very good or good.

During Fiscal Year 1991, the Postal Service completed the first year of independent measurement from the customer's perspective under the External First-Class measurement system and the Customer Satisfaction Index.

3:06 PM



"I think it's great the Postal Service is concerned about clean air and protecting the environment."

*Jim Doonan
Mechanic
Bethesda, MD*

DOING OUR SHARE TO PRESERVE NATURAL RESOURCES

W

ith 750,000 career employees, a fleet of about 176,000 vehicles and 40,000 post offices, stations and branches, the Postal Service has a large impact on the environment. In 1991, it made recycling, conservation and other environmental issues an integral part of its overall mission. The first chief environmental officer was appointed. The Postal Service launched the nation's largest recycling effort, which could save the American people as much as \$40 million annually. Postal facilities from Nome, AK, to Nantucket, MA, are participating in the National Pollution Prevention Program, which the Environmental Protection Agency (EPA) called "a model for everyone in the public and private sectors."

The Postal Service also is working with advertising mailers to help them improve the effectiveness of their direct marketing efforts by identifying and correcting the causes of unwanted and undeliverable-as-addressed mail. Mailers got help to prepare better targeted mailing lists and to address mail more accurately.

Such efforts benefit the environment by eliminating waste, and mailers benefit by eliminating unnecessary expense.

The Postal Service has made "recyclability" a major focus in all of its product and development efforts — ranging from product packaging to postage stamp and stationery items. Last year, more than 45 billion postage stamps were produced. Stamp sales totaled \$9.2 billion. Over 99 percent of these stamps are the familiar "lick and stick" variety. These are made with water-activated adhesives, which totally dissolve during the recycling process. A special paper was developed making it easier for peel and stick stamps to be dispensed through automatic teller machines (ATMs).

The Postal Service also expanded its "good neighbor" efforts to assist communities wrestling with clean air problems. The Postal Service operates the nation's largest fleet of cleaner running natural gas delivery vehicles, which will triple to more than 1,000 vehicles in 1992.

ALTERNATIVE FUEL FLEET



The Postal Service operates the world's largest alternative fuel fleet. The number of vehicles running on compressed natural gas, deployed in the cities shown, will triple in 1992 to more than 1,000 cleaner running vehicles.

The Postal Service began experimenting with alternative fuels in the 1970s. Since then, to keep pace with technological advances and to address clean air concerns, it continues to test and evaluate alternative fuels like compressed natural gas (as shown in photo at left).

PROTECTING THE MAIL

Millions of times each day, an act of faith occurs between the American people and the Postal Service. Americans entrust to letter carriers some of their most valued possessions — their private thoughts and payroll checks, their birthday presents, bills and baby pictures. They open the blue collection box and deposit their mail, confident that the Postal Service will do whatever it has to do to get the item delivered safely, accurately and on time.

The Postal Inspection Service, the nation's oldest federal law enforcement agency,

continued its efforts to eliminate theft, consumer fraud and misrepresentations through the mail. It also conducted audits of postal expenditures, operations and programs to confirm that reported results were achieved.

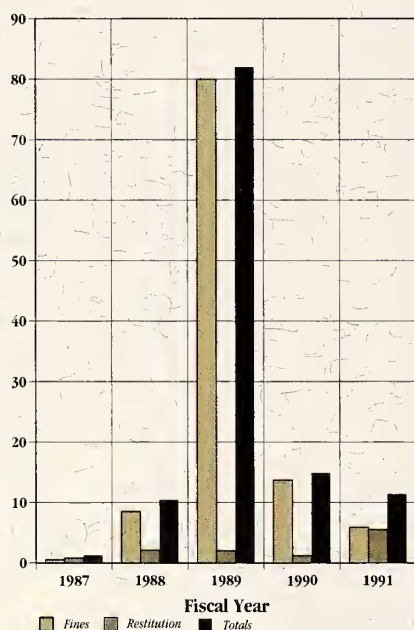
ENFORCING THE LAW

In Fiscal Year 1991, postal inspectors received 202,901 mail theft complaints and made 5,720 arrests related to mail theft by non-postal personnel. At the same time, postal inspectors arrested 954 individuals for miscellaneous crimes such as counterfeit or contraband postage, money order offenses, vandalism and arson.

Postal inspectors conducted 4,263 mail fraud investigations during Fiscal Year 1991 and made 1,772 arrests. The investigative work of postal inspectors on the Michael Milken securities fraud case resulted in an award of more than \$22 million payable to the Postal Service as its share of the negotiated forfeiture. In Fiscal Year 1991, 371 civil complaints were filed under the False Representation Statute. The Postal Inspection Service launched two ambitious nationwide drug sting operations dubbed

In Fiscal Year 1991, the Postal Service began implementation of a new Corporate Delivery Plan to bring all current delivery operations up to the highest possible level of service and productivity and to prepare delivery operations for barcode automation.

CRIMINAL FINES AND RESTITUTION RECEIVED BY USPS



The Postal Service received \$11.4 million in proceeds from criminal fines and court-ordered restitution.

“Clean Sweep” I and II respectively, which targeted dealers who use the mail to distribute drugs and collect illegal proceeds. In 1991, postal inspectors arrested 1,468 individuals for the mailing of narcotics and seized drug proceeds, which exceeded \$12.7 million. Under the forfeiture authority legislated by Congress in 1986, postal inspectors seized property with an appraised value of over \$34.8 million in Fiscal Year 1991. Approximately 67 percent of the civil forfeitures are related to money laundering violations, while the remaining 33 percent involved drug violations.

5:18 PM



"It is critical to the success of the Postal Service that we maintain prompt pick-up and timely delivery practices."

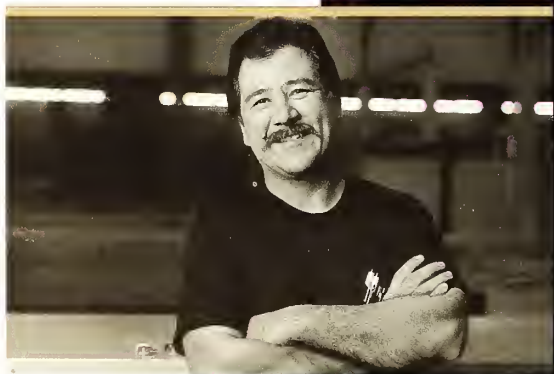
Lori Randolph
Letter Carrier
Minneapolis, MN



8:42 PM

"Training is very important to the Postal Service because of automation and the sophisticated equipment we use to process the mail."

*Carlos Lobo
Electronic Technician
San Antonio, TX*



DEVELOPING THE WORK FORCE THROUGH CAREER OPPORTUNITY

The success of the Postal Service depends on well-trained and motivated employees. In Fiscal Year 1991, the Postal Service continued its efforts to expand the skills of its work force. More than 11 million hours of training were provided during the fiscal year, representing an 8.8 percent increase over 1990. Including salaries, the Postal Service spent \$418 million for training during the year.

Extensive work force diversity training was provided to Postal Service managers to improve management skills in working effectively with a culturally diverse work force. Government and private forecasts point to the accelerated entrance of minorities and women into the American workplace through the year 2000.

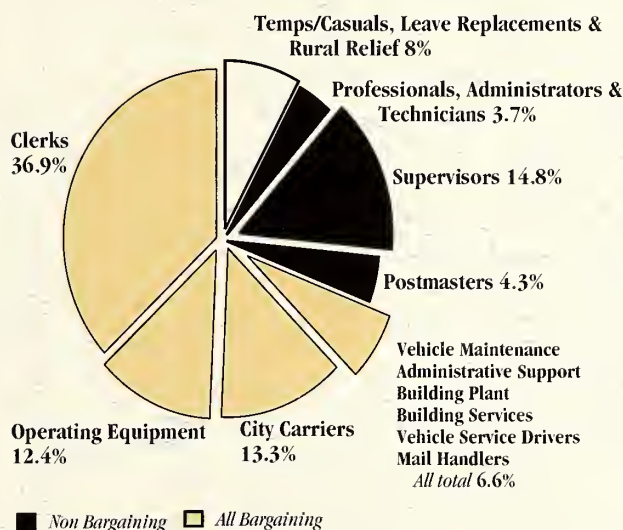
Career planning and guidance training were provided to more than 7,000 employees through Career Resource Centers at post offices in Little Rock, AR; Phoenix, AZ; Boston, MA; and New Brunswick, NJ. Additional centers are scheduled to open in 1992.

LONG-DISTANCE LEARNING

More than 22,500 employees were trained during the fiscal year via the state-of-the-art Postal Satellite Training Network (PSTN), inaugurated in November 1990 with an interactive broadcast to all 73 postal field divisions.

In 1991, PSTN allowed the Postal Service to avoid significant travel and related costs and permitted more managers and employees to increase their technical skills by receiving training in their communities. The network was used extensively to prepare employees for rate adjustments and revenue generation programs announced in 1991. Audio teletraining reached more than 8,000 employees involved in rates and classification changes, rail and highway contract management, labor relations and personnel management.

FY 1991 USPS TOTAL TRAINING HOURS*



*Does not include Regions and Headquarters

The USPS provided more than 11 million hours in employee training in Fiscal Year 1991.

10:05 PM



*"Automation is
making my job
a lot easier. It
feels good to
work smarter
... not harder."*

*Mark Konze
Parcel Post Distribution
Machine Operator
Minneapolis, MN*



PACKAGING A SERVICE THAT CUSTOMERS LIKE



While total mail volume dropped in 1991 for the first time in 15 years, parcel post showed a gain of more than 10 million pieces or 8.1 percent. Mailers responded to the competitive pricing and service value of parcel post, particularly in packages for residential delivery. In order to improve service and handling efficiency for parcels and other types of mail, the Postal Service Governors approved funding of \$34.7 million to purchase 60,000 postage validation imprinters that combine postage and destination bar codes for automated sorting.

The Postal Service's commitment to identifying and meeting customer needs and expectations was reinforced in 1991 with the selection of a senior officer to head the development and implementation of a total quality management process. Several field units and departments at Postal Service Headquarters already had begun quality processes to help them improve service to their internal and external customers. Along with the Customer Satisfaction Index (CSI) and the External First-Class measurement system (EXFC), which are integral parts of a quality process, these events characterize the interest and desire throughout the Postal Service to raise levels of customer service. A total quality management process will provide impetus to achieve the Postal Service Strategic Plan nationwide to increase customer satisfaction, to maintain reasonable rates, and to enhance employee motivation and commitment.

SPIRIT OF COOPERATION

The Postal Service continued to support other processes that foster teamwork and cooperation, including Management by Participation; Employee Involvement Quality of Work Life (EI/QWL); Career Awareness Conferences; and numerous other training programs. By the end of the year, there were approximately 6,500 EI/QWL work teams and quality circles, as well as 400 joint union-management steering committees dedicated to creating opportunities for employees to participate in finding creative solutions to operations, delivery and other problems. For the first time, joint awards were presented in 1991 for outstanding efforts in participatory management by the Postal Service in conjunction with the National Association of Postmasters of the United States, the National League of Postmasters of the United States, and the National Association of Postal Supervisors. Awards were presented to postal field divisions and management sectional centers in Albany, NY; Birmingham, AL; Boston, MA; Charleston, WV; Fayetteville, NC; Fort Worth, TX; Grand Rapids, MI; Los Angeles, CA; St. Paul, MN; and Tucson, AZ.

**QUALITY
FOR THE POSTAL
SERVICE MEANS
SATISFYING THE
EXPECTATIONS
OF
OUR CUSTOMERS
THE FIRST TIME,
EVERY TIME.**

The Postal Service continued efforts in Fiscal Year 1991 to automate the processing of parcels and sacks. To facilitate the automated sorting of parcels, a contract was awarded to equip all 21 Bulk Mail Centers with a Package Bar Code Sorting System.

12:10 AM



"It's very important to have labor and management working together as a team to provide the best possible service to our customers."

— Generoso M. Mercado
Supervisor of Mails
San Antonio, TX

MOTIVATION THROUGH REWARD

To encourage quality and foster teamwork, the Postal Service took new steps in 1991 to measure, recognize and reward its employees for their performance. The Postal Service introduced the "Striving for Excellence Together" (SET) Program, through agreements signed with all but two labor unions. The program provides incentive payments after each fiscal year based on local and national improvements in financial performance and customer satisfaction. SET pays eligible employees as much as \$1,190 annually for national financial improvements and division-level increases in community approval ratings, as measured by the Customer Satisfaction Index (CSI).

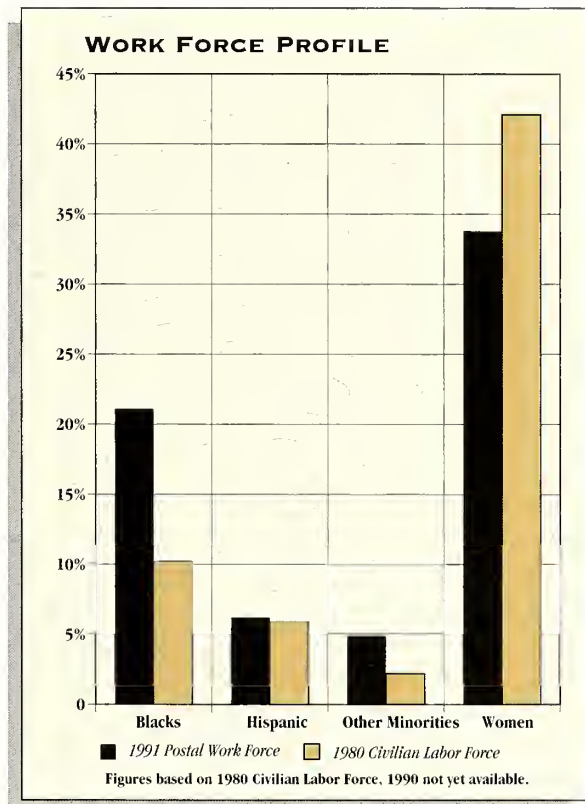
Based on its success in 1990, the Postal Service continued the Readability Improvement Leadership Award to recognize employees in each of the Postal Service's five regions who make significant contributions to the operating environment.

After months of tough negotiations between postal management and its four largest unions, the existing contracts expired November 20, 1990 without agreement. The Postal Service was able to reach a negotiated settlement in February 1991 with the National Postal Mail Handlers Union which represents 49,000 employees. However, for the two largest unions, the American Postal Workers Union and the National Association of Letter Carriers which together represent 560,000 employees, the collective bargaining process went to binding arbitration.

Settled in June 1991, the first four-year labor contract provides customers with cost restraint, management with work rule flexibility, and employees with a fair package of wages and benefits. A similar agreement was reached with the National Rural Letter Carriers' Association which represents 42,000 career employees. The Postal Service also provided changes to compensation for its managers and other nonbargaining unit employees. The changes included salary increases, the SET program, and, at little or no expense to the Postal Service, new features to several of the benefit programs.

Fiscal Year 1991 was a year of difficult challenges. But, with solid planning and the dedication and commitment of its employees, the Postal Service made steady "round-the-clock" progress in achieving efficiency and cost savings.

The Postal Service continued making progress with the Employee Involvement/Quality of Work Life (EI/QWL) process, which fosters teamwork and labor-management participation. Employee recognition programs (as shown at left) also were established based on employee participation with improvements in national financial performance and customer satisfaction.



The Postal Service is one of the nation's leading employers of minorities and women.



*Above seated left to right: LeGree S. Daniels,
Norma Pace, John N. Griesemer, Robert Setrakian.
Standing: Bert H. Mackie, Crocker Nevin, Ira D.
Hall, Susan E. Alvarado, Tirso del Junco, M.D.*

BOARD OF GOVERNORS FISCAL YEAR 1991

Norma Pace, *Chairman of the Board of Governors*, is an economist and consultant to several major corporations in the nation. She is President of Economic Consulting and Planning, Inc., an economic counseling and strategic planning firm. She is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning. She was appointed to the Board in May 1987 for a term expiring in December 1994.

John N. Griesemer, *Vice Chairman of the Board*, is President of the Griesemer Stone Company and General Warehouse Corporation, Springfield, MO. He became a Governor in December 1984 for a term that expired December 8, 1986. He was reappointed, without a break in service, to a full term, expiring December 1995. He was selected Chairman of the Board in January 1987 and served two years.

Susan E. Alvarado, Vice President of Operations, Akmer International, Inc., an Alexandria, VA-based exporter/importer and fabricator of marble and granite, was appointed in July 1988 to serve on the Board for a term expiring December 1996. Prior to joining Akmer, she was President of the Alvarado Group, a Washington, DC, government relations firm. Formerly Assistant for Legislative Affairs to Assistant Minority Leader Senator Ted Stevens of Alaska — and subsequently to Vice President George Bush — she later served as Vice President for Congressional Liaison for the National Association of Broadcasters.

LeGree S. Daniels, a noted civil rights activist, was appointed to the Board in August 1990 for a term expiring December 1998. She served as the U.S. Department of Education's Assistant Secretary for Civil Rights from 1987 to 1989. Previously, she served as Deputy Secretary of the Commonwealth of Pennsylvania.

Tirso del Junco, M.D., a Los Angeles surgeon and entrepreneur, was appointed to the Board in July 1988 for a term expiring December 1991. He was reappointed, without a break in service, to a full term, expiring December 2000. He founded and served as Chairman of the Board of the Los Angeles National Bank and now serves as a member of the Board of Regents of the University of California.

Bert H. Mackie, President of the Security National Bank of Enid, OK, was appointed to serve on the Board in December 1988. His term will expire December 1997. He is an ardent supporter of quality education and is a trustee of the Oklahoma Foundation for Excellence.

Crocker Nevin became a Governor in August 1986 and will serve the remainder of a term expiring December 1992. He previously served on the Board of Governors from 1971 to 1977. He has an extensive background in banking, finance and community service.

Robert Setrakian, a San Francisco businessman, was appointed to the Board in December 1985 for a term expiring December 1993. He previously served as Chairman of the Board of Governors. He was a Commissioner of the Federal Maritime Commission from 1983 to 1985.

Anthony M. Frank was appointed the nation's 69th Postmaster General by the Governors on February 2, 1988, taking office March 1, 1988. Prior to joining the Postal Service, he was Chairman of the Board and Chief Executive Officer of First Nationwide Bank, one of the nation's largest consumer banking operations.

Michael S. Coughlin was named Deputy Postmaster General by the Board on January 5, 1987, after holding a series of top-level postal management positions. Now the Chief Operating Officer, he entered the Postal Service as a management intern.

Also serving on the Board during Fiscal Year 1991: **Ira D. Hall**, who was Chairman of the Audit Committee. Hall, Treasurer of IBM US, was appointed to serve on the Board in November 1987. His term expired December 8, 1990. (As provided by law, he continued serving on the Board until November 25, 1991.)

J. Sam Winters, a partner in the law firm of Clark, Thomas, Winters and Newton in Austin, TX, was appointed to serve on the Board November 26, 1991, for a term expiring December 1999.

OFFICERS OF THE U. S. POSTAL SERVICE

AS OF JANUARY 7, 1992

Officers of the Postal Service are appointed by and serve at the pleasure of the Postmaster General. In selecting them, the Postal Service places special trust and confidence in their integrity and ability.

OFFICERS OF THE U. S. POSTAL SERVICE



Anthony M. Frank
Postmaster General



Michael J. Shinn
Executive Assistant
to the Postmaster General



Michael S. Coughlin
Deputy
Postmaster General



Edward E. Morgan, Jr.
Associate
Postmaster General



Kenneth J. Hunter
Associate
Postmaster General



William R. Cummings
Senior Assistant
Postmaster General,
Operations Support
Group



Joseph R. Caraveo
Regional
Postmaster General,
Western Region



William J. Dowling
Assistant
Postmaster General,
Engineering and
Technical Support
Department



Samuel Green, Jr.
Regional
Postmaster General,
Eastern Region



Allen R. Kane
Assistant
Postmaster General,
Delivery, Distribution
and Transportation
Department



Peter A. Jacobson
Regional
Postmaster General,
Northeast Region



Arthur I. Porvick
Assistant
Postmaster General,
Operations Systems
and Performance
Department



Jerry A. Lee, Sr.
Regional
Postmaster General,
Southern Region



Stephen E. Miller
Assistant
Postmaster General,
Automation
Implementation
Management
Department



John G. Mulligan
Regional
Postmaster General,
Central Region



Deborah K. Bowker
Assistant
Postmaster General,
Communications
Department



Patricia M. Gilbert
Assistant
Postmaster General,
Customer and
Automation Service
Department



James A. Cohen
Judicial Officer



Gordon C. Monson
Assistant
Postmaster General,
Philatelic and Retail
Services Department



William T. Johnstone
Assistant
Postmaster General,
Government Relations
Department



John R. Wargo
Assistant
Postmaster General,
Advertising and
Account Services
Department



Thomas E. Leavey
Assistant
Postmaster General,
International Business
Department



Richard J. Strasser, Jr.
Senior Assistant
Postmaster General,
Marketing and
Customer Service
Group



Comer S. Copple
Senior Assistant
Postmaster General,
Finance Group



Charles R. Clauson
Chief Postal
Inspector



Harold J. Hughes
General Counsel



Fred J. Eggleston
Deputy
General Counsel



David H. Charters
Senior Assistant
Postmaster General,
Quality Group



Frank R. Power
Assistant
Postmaster General,
Planning Department



Frank R. Heseltun
Assistant
Postmaster General,
Rates and Classification
Department



Stephen M. Kearney
Treasurer



M. Richard Porras
Assistant
Postmaster General,
Department of the
Controller



Joseph J. Mahon, Jr.
Senior Assistant
Postmaster General,
Human Resources
Group



Sherry A. Cagnoli
Assistant
Postmaster General,
Labor Relations
Department



Edward A. Mooley
Assistant
Postmaster General,
Training and
Development
Department



Joel S. Trosch
Assistant
Postmaster General,
Employee Relations
Department



Ann McK. Robinson
Consumer Advocate



Karen T. Lemoto
Assistant
Postmaster General,
Technology Resource
Department



Mitchell H. Gordon
Senior Assistant
Postmaster General,
Administrative
Services Group



John J. Davin
Assistant
Postmaster General,
Procurement
and Supply
Department



Stanley W. Smith
Assistant
Postmaster General,
Facilities
Department



Richard D. Weinrich
Assistant
Postmaster General,
Information Resource
Management
Department

FINANCIAL STATEMENTS

Balance Sheets

	September 30,	
	1991	1990
	(dollars in thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$ 711,035	\$ 1,737,793
U.S. Government securities at amortized cost, which approximates market	3,196,694	1,895,552
Receivables		
Foreign countries	395,899	390,326
U.S. Government	114,303	102,567
Accrued interest	29,748	29,837
Other	152,213	63,714
	<u>692,163</u>	<u>586,444</u>
Less allowances	35,590	28,921
	<u>656,573</u>	<u>557,523</u>
Supplies, advances and prepayments	298,966	337,473
Total current assets	<u>4,863,268</u>	<u>4,528,341</u>
Other assets	96,583	26,936
Property and equipment, at cost - Note 7		
Buildings	8,401,231	7,433,508
Equipment	5,632,196	5,134,542
Land	1,491,820	1,302,322
	<u>15,525,247</u>	<u>13,870,372</u>
Less allowances for depreciation	4,844,600	4,449,609
	<u>10,680,647</u>	<u>9,420,763</u>
Construction in progress	2,206,249	1,885,211
Leasehold improvements, net of amortization	221,761	217,116
	<u>13,108,657</u>	<u>11,523,090</u>
Deferred retirement costs - Note 4	<u>25,196,942</u>	<u>21,426,196</u>
	<u>\$43,265,450</u>	<u>\$37,504,563</u>

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

	September 30, 1991	1990
	(dollars in thousands)	
Liabilities and Net Capital Deficiency		
Current liabilities		
Compensation and benefits	\$ 3,281,695	\$ 2,414,372
Estimated prepaid postage	1,496,000	1,296,000
Payables and accrued expenses		
Foreign countries	451,995	405,870
U.S. Government	240,241	255,710
Other	75,396	221,126
	<u>767,632</u>	<u>882,706</u>
Prepaid permit mail and box rentals	978,760	887,072
Outstanding postal money orders	573,969	506,455
Current portion of long-term debt	302,048	303,200
Total current liabilities	<u>7,400,104</u>	<u>6,289,805</u>
Long-term debt, less current portion - Note 7	8,138,375	6,667,530
Other liabilities		
Amounts payable for retirement benefits - Note 4	24,242,503	20,767,653
Workers' compensation costs - Note 5	3,521,000	3,780,000
Retroactive assessment payable to the U.S. Government - Note 2	1,397,082	—
Employees' accumulated leave	1,195,712	1,133,478
Other	117,610	143,763
	<u>30,473,907</u>	<u>25,824,894</u>
Commitments and contingencies - Notes 8 and 9		
Net capital deficiency		
Capital contributions of the U.S. Government	3,033,471	3,034,127
Deficit since reorganization	<u>(5,780,407)</u>	<u>(4,311,793)</u>
Total net capital deficiency	<u>(2,746,936)</u>	<u>(1,277,666)</u>
	<u>\$43,265,450</u>	<u>\$37,504,563</u>

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Statements of Operations and Changes in Net Capital Deficiency

Years Ended September 30,
1991 1990

(dollars in thousands)

Operating revenue - Note 6	\$43,884,472	\$39,654,830
Operating expenses		
Compensation and benefits - Notes 2, 3, 4 and 5	36,076,230	34,214,093
Other	7,214,553	6,275,791
	<u>43,290,783</u>	<u>40,489,884</u>
Income (loss) from operations	593,689	(835,054)
Interest income	317,763	419,691
Interest expense on borrowings	(479,417)	(458,215)
Extraordinary retroactive assessment for employee benefits (includes imputed interest of \$90,507) - Note 2	<u>(1,900,649)</u>	<u>-</u>
Net loss	(1,468,614)	(873,578)
Net capital deficiency — beginning of year	(1,277,666)	(401,629)
Capital equipment transferred to the U.S. Government	<u>(656)</u>	<u>(2,459)</u>
Net capital deficiency — end of year	<u><u>\$(2,746,936)</u></u>	<u><u>\$(1,277,666)</u></u>

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Statements of Cash Flows

	Years Ended September 30,	
	1991	1990
	(dollars in thousands)	
Cash flows from operating activities:		
Net loss	\$(1,468,614)	\$ (873,578)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	734,325	668,751
(Increase) in other assets	(89,357)	(595)
Increase in retirement costs, net of retirement benefits payable	(295,896)	(46,684)
(Decrease) increase in non-current workers' compensation costs	(259,000)	35,000
Retroactive assessment payable to the U.S. Government	1,397,082	—
Increase in employees' accumulated leave	62,234	192,897
(Decrease) increase in other liabilities	(26,153)	86,000
Changes in current assets and liabilities:		
(Increase) decrease in receivables, net	(99,050)	18,923
Decrease (increase) in supplies, advances and prepayments	38,507	(169,214)
Increase in accrued compensation and benefits	867,323	303,786
Increase in estimated prepaid postage	200,000	44,000
(Decrease) increase in payables and accrued expenses	(115,074)	24,882
Increase in prepaid permit mail and box rentals	91,688	57,019
Increase (decrease) in outstanding postal money orders	67,514	(37,748)
Net cash provided by operating activities	1,105,529	303,439
Cash flows from investing activities:		
(Purchase) sale of U.S. Government securities, net	(1,301,142)	931,629
Purchase of property and equipment, net	(2,320,548)	(1,858,296)
Net cash used in investing activities	(3,621,690)	(926,667)
Cash flows from financing activities:		
Issuance of long-term debt	1,800,000	800,000
Decrease (increase) in bond sinking fund	19,710	(10,000)
Payments on long-term debt	(330,307)	(305,532)
Net cash provided by financing activities	1,489,403	484,468
Net decrease in cash and cash equivalents	(1,026,758)	(138,760)
Cash and cash equivalents at beginning of year	1,737,793	1,876,553
Cash and cash equivalents at end of year	<u>\$ 711,035</u>	<u>\$1,737,793</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

1. POSTAL REORGANIZATION AND ACCOUNTING POLICIES

Postal Reorganization

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Cash Equivalents

Cash equivalents include securities with maturities at date of purchase of 90 days or less.

Property and Equipment

Property and equipment are recorded at cost, including interest on funds borrowed to finance the acquisition or construction of major capital additions. Such interest amounted to \$126,754,000 in Fiscal Year 1991 and \$107,276,000 in Fiscal Year 1990. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful lives.

Estimated Prepaid Postage

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Workers' Compensation Costs

Workers' compensation costs are self-insured by the Postal Service. Such costs, which include both medical and wage continuation costs, are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Compensation and Benefits

Amounts payable for compensation and benefits consists of

current liabilities for costs related to current employees and postal annuitants. Such liabilities include those arising from current salaries and benefits earned but not yet paid, currently payable workers' compensation costs, unemployment costs, annuitants' health benefits payable and current portions of retirement liabilities. Compensation and benefits expense includes all the above-mentioned items and, in addition, includes interest expense on the deferred unfunded retirement liabilities.

Retirement Benefits

Amounts payable for retirement benefits reflect the net present value of the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the CSRS Fund) arising from increases in basic pay granted by postal management to its employees and cost-of-living allowances (COLAs) to postal annuitants based on postal service. Also included in this total is the net present value of an unfunded liability arising from the transfer of Civil Service Retirement System (CSRS) employees into the Federal Employees Retirement System (FERS). These liabilities are payable in equal amounts over a 30-year period, with the exception of COLAs, which are payable over 15 years. Amounts applicable to operations of future years are capitalized as deferred retirement costs and are subsequently amortized over periods of 30 and 15 years.

Post-Retirement Health Benefits

Retiree health benefits costs represent the Postal Service's obligation to pay a portion of the health insurance premiums of retirees and their survivors participating in the Federal Employees Health Benefit Program (FEHBP). The Postal Service's participation in the FEHBP is accounted for as participation in a multiemployer plan arrangement. Accordingly, retiree health benefits costs are expensed as incurred.

Research and Development Costs

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$115,000,000 in Fiscal Year 1991 and \$81,000,000 in Fiscal Year 1990.

Reclassifications

Certain reclassifications have been made to previously reported amounts in order to conform to the current year presentation.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

2. EXTRAORDINARY RETROACTIVE ASSESSMENT FOR EMPLOYEE BENEFITS

The Omnibus Budget Reconciliation Act of 1990 (OBRA 1990), enacted in October 1990, extended the Postal Service's obligation to pay the employer's portion of annuitant COLAs (Note 4) and health benefits (Note 3). The OBRA 1990 also assessed the Postal Service for retroactive amounts to be paid in five annual installments, beginning in Fiscal Year 1991, totaling \$2,140,000,000. The assessment represents the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA 1990 been in effect from July 1, 1971, through September 30, 1986.

The retroactive assessments payable under the OBRA 1990, on a present value basis, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Health Benefits</u>	<u>COLAs</u>	<u>Total</u>
1991	\$ 56,000	\$216,000	\$ 272,000
1992	47,000	266,000	313,000
1993	62,000	316,000	378,000
1994	56,000	416,000	472,000
1995	234,000	471,000	705,000
			<u>2,140,000</u>
Less amount representing imputed interest at 5 percent			<u>329,858</u>
Extraordinary retroactive assessment for employee benefits			1,810,142
Less 1991 installment paid			181,493
Less the 1992 installment classified as a current liability			231,567
			<u>\$1,397,082</u>

3. POST-RETIREMENT HEALTH BENEFIT PROGRAMS

Career employees of the Postal Service are eligible to participate in the FEHBP, which is administered by the Office of Personnel Management (OPM), during their employment and also after retirement. Under the FEHBP, the Postal Service pays a portion of the health insurance premiums of participating employees, retirees and their survivors.

The Omnibus Budget Reconciliation Act of 1985, enacted in April 1986, obligated the Postal Service to pay the employer's

share of health insurance premiums incurred through participation in the FEHBP for employees retiring after September 30, 1986 and their survivors. Such costs amounted to \$166,000,000 in Fiscal Year 1990 and are included in compensation and benefits expense.

The OBRA 1990 extended the Postal Service's obligation, on a prospective basis, to include the employer's share of health insurance premiums incurred through participation in the FEHBP for all employees retiring on or after July 1, 1971, and their survivors, with the exclusion of costs attributable to federal civilian service prior to that date. Such costs related to current year operations amounted to \$328,000,000 in Fiscal Year 1991 and are included in compensation and benefits expense.

As discussed in Note 2, the OBRA 1990 also required the Postal Service to reimburse the U.S. Government for annuitants' health benefits costs paid prior to the enactment of the law.

4. RETIREMENT PROGRAMS

Description of Plans

The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the CSRS. CSRS provides a basic annuity and Medicare coverage.

Employees hired between January 1, 1984 and January 1, 1987, are covered by the provisions of the Dual CSRS/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions.

Effective January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. In addition, employees hired prior to January 1, 1984 were able to elect participation in FERS during certain periods in Fiscal Years 1987 and 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

The Postal Service is required to contribute a minimum of 1 percent per annum of the basic pay of FERS employees to the thrift savings plan. Contributions by FERS employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic pay and at a 50 percent rate between 3 percent and 5 percent of basic pay.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

The number of employees enrolled in each of the retirement plans at the end of Fiscal Years 1991 and 1990 are as follows:

	1991	1990
CSRS	424,671	447,538
Dual CSRS/Social Security	14,624	14,470
FERS	308,868	298,086

Deferred Retirement Costs

Deferred retirement costs consist of the following unfunded liabilities (in thousands):

	1991	1990
CSRS basic pay increases	\$21,776,528	\$20,637,035
CSRS annuitants' COLAs	3,066,086	427,887
FERS	354,328	361,274
	<u>\$25,196,942</u>	<u>\$21,426,196</u>

Unfunded Liability - FERS

The unfunded liability of the FERS basic annuity plan relates to costs associated with employees who transferred from the CSRS. This liability is determined by the Office of Personnel Management (OPM), and is funded by the Postal Service through supplemental contributions over a 30-year period with interest computed at 7 percent per annum. In Fiscal Year 1989, OPM determined the initial supplemental liability under FERS attributable to Postal Service employees at September 30, 1988, to be \$400,000,000. An annual payment of \$32,235,000 is due on September 30 of each year.

Unfunded Liability - CSRS

Under the CSRS, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the CSRS Fund attributable to Postal Service employee-management agreements that authorize increases in employees' basic pay on which benefits payable from the CSRS Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at 5 percent per annum. The first payment thereof is due at the end of the fiscal year in which an increase in the basic pay becomes effective.

The increases in the unfunded liability for retirement benefits pursuant to employee-management agreements under the CSRS in Fiscal Years 1991 and 1990 were \$1,882,813,000 and \$661,996,000, respectively.

Unfunded Liability - Annuitants' COLAs

In Fiscal Year 1990, the Postal Service became liable, on a prospective basis, for the cost of COLAs granted to postal annuitants retiring subsequent to September 30, 1986, pursuant to the Omnibus Budget Reconciliation Act of 1989 (OBRA 1989). The increase in the unfunded liability for annuitants' COLAs was \$486,470,000 in Fiscal Year 1990.

The OBRA 1989 was amended by the OBRA 1990, effective in Fiscal Year 1991, which extended the Postal Service's liability, on a prospective basis, to include COLAs granted to employees retiring on or after July 1, 1971. The annual liability created by these laws is determined by OPM and funded in equal annual installments over 15 years, with interest at 5 percent per annum. The increase in the unfunded liability for annuitants' COLAs was \$2,944,424,000 in Fiscal Year 1991.

Future Minimum Payments

The estimated future minimum payments required to fund amounts payable for CSRS and FERS retirement benefits on September 30, 1991, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
1992	\$ 2,244,872
1993	2,214,872
1994	2,204,471
1995	2,183,971
1996	2,157,871
Thereafter	29,866,337
	<u>40,872,394</u>
Less the portion classified as a	
current liability	977,439
Less amount representing interest	<u>15,652,452</u>
	<u>\$24,242,503</u>

Expense Components

Components of aggregate retirement expenses for Fiscal Years 1991 and 1990 are shown at the top of the next page (in thousands). These costs are included in compensation and benefits expense.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

	1991	1990
CSRS - regular	\$ 917,167	\$ 939,715
FERS - regular	992,323	879,374
FERS - Thrift Savings Plan	229,775	184,979
Dual CSRS/Social Security	28,629	27,804
Amortization of unfunded liabilities:		
CSRS	743,320	628,355
Annuitant COLAs	306,225	58,583
FERS	6,946	6,491
Interest on unfunded liabilities ...	<u>1,171,882</u>	<u>1,070,963</u>
	<u>\$4,396,267</u>	<u>\$3,796,264</u>

5. WORKERS' COMPENSATION

As a part of management's continuing evaluation of estimates required in the preparation of its financial statements, two refinements to the basis of calculating the estimate of the liability for workers' compensation were implemented during Fiscal Year 1991.

The first refinement reevaluates the probability of cases leaving the workers' compensation rolls for reasons other than mortality. Prior to Fiscal Year 1991, the estimate of the long-term liability was based on the assumption that all cases on the workers' compensation rolls for eight or more years would remain on the rolls until the death of the claimant. This assumption was made because a sufficient database of claims information since Postal reorganization did not exist at the time the liability estimation methodology was developed. Accordingly, cases on the rolls for eight or more years were not assigned probabilities of termination for reasons other than mortality. Collection and analysis of a more comprehensive history of workers' compensation cases indicates that a number of cases eight or more years old leave the workers' compensation rolls for reasons other than mortality. In response to this analysis, in Fiscal Year 1991, the Postal Service refined the liability estimation model to assign non-mortality termination probabilities, based on actual claims history, to claimants on the rolls for eight or more years.

The second refinement establishes a separate discount rate for that portion of the Postal Service's workers' compensation liability comprised of estimated future medical payments, in order to better reflect the effects of medical inflation on those payments. The effect of this refinement is to reduce the net discount rate used for medical cases.

The effect of these refinements has been accounted for as a change in accounting estimate and, accordingly, resulted in a net decrease of \$836,168,000 in the Postal Service's Fiscal Year 1991 compensation and benefits expense. In management's opinion, these refinements represent a significant improvement in the estimation process. Components of this change are as follows (in thousands):

	Medical Claims	Compensation Claims	Total
Effect of cases leaving the rolls for reasons other than mortality	\$260,662	\$673,466	\$934,128
Effect of change in net discount rate	(97,960)	-	(97,960)
	<u>\$162,702</u>	<u>\$673,466</u>	<u>\$836,168</u>

6. REVENUE FORGONE

Operating revenue includes reimbursements and accruals for revenue forgone. Revenue forgone results from charging lower rates for the mail categories which Congress has determined should be subsidized through tax dollars. Revenue forgone earned by the Postal Service during Fiscal Years 1991 and 1990 amounted to \$561,868,000 and \$453,425,000, respectively.

7. LONG-TERM DEBT AND INTEREST COSTS

The Postal Reorganization Act, as amended by Public Law 101-227, authorizes the Postal Service to issue and sell obligations not to exceed \$12,500,000,000 and \$10,000,000,000 outstanding at any one time in Fiscal Years 1991 and 1990, respectively. This law increases borrowing authority for Fiscal Year 1992 and thereafter to \$15,000,000,000. Net annual increases in outstanding obligations are limited to \$2,000,000,000 for the purpose of capital improvements and \$1,000,000,000 for operating expenses.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

Long-term debt consists of the following:

	<u>September 30, 1991</u>	<u>September 30, 1990</u>
6-7/8% Postal Service Bonds, Series A, due February 1, 1997	\$ 220,290,000	\$ 250,000,000
Notes payable to Federal Financing Bank:		
8.075% payable \$32,000,000 each year to May 31, 2000	288,000,000	320,000,000
7.800% payable \$15,000,000 each year to May 31, 2001	150,000,000	165,000,000
10.475% payable \$38,800,000 each year to May 31, 2010	737,200,000	776,000,000
7.591% payable \$50,000,000 each year to May 31, 2011	1,000,000,000	1,050,000,000
8.474% payable \$30,000,000 each year to May 31, 2012	630,000,000	660,000,000
8.908% payable \$35,400,000 each year to May 31, 2012	743,400,000	778,800,000
9.074% payable \$60,000,000 each year to May 31, 2012	1,260,000,000	1,320,000,000
9.081% payable \$36,000,000 each year to May 31, 1996, \$12,000,000 due June 2, 1997	192,000,000	228,000,000
8.759% average interest rate, payable \$24,000,000 commencing on May 31, 1997, with 16 payments of \$36,000,000 due each succeeding year ending on May 31, 2013	600,000,000	600,000,000
8.488% payable on October 2, 1995, with interest payments commencing on March 31, 1991	800,000,000	800,000,000
7.593% average interest rate, payable \$450,000,000 on September 30, 1993, 1998, 2001, 2021 with interest payments commencing on September 30, 1991	1,800,000,000	—
Mortgage notes payable including interest of 4.75% to 10% maturing from Fiscal Years 1992 through 2004 secured by land, buildings and equipment with a carrying amount of \$94,660,000 (aggregate annual installments approximate \$5,300,000)	19,533,000	22,930,000
	8,440,423,000	6,970,730,000
	302,048,000	303,200,000
Less current portion	<u>\$8,138,375,000</u>	<u>\$6,667,530,000</u>

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1991 AND 1990

The 6-7/8% Series A Postal Service Bonds were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations, and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service; and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of \$10,000,000 either in cash or reacquired Series A Bonds. However, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service, or may be used to invest in restricted Treasury securities as agreed with the fund custodian. Since the commencement of the sinking fund in 1978, the Postal Service has applied \$110,000,000 to the construction of mail facilities. The balance in the sinking fund (\$290,000 in 1991 and \$20,000,000 in 1990) is included in other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity in February 1997, at the option of the Postal Service, at the principal amount plus accrued interest.

On July 31, 1991, the Postal Service deposited \$10,000,000 in the sinking fund, bringing the sinking fund balance at that time to \$30,000,000. The Postal Service subsequently retired, prior to maturity, repurchased bonds with a face value of \$29,710,000. The assets of the sinking fund were used to retire the repurchased bonds.

Annual maturities of the debt described above for each of the next five years are (in millions): 1992 — \$302; 1993 — \$750; 1994 — \$299; 1995 — \$1,099; 1996 — \$301.

Cash paid for interest was \$623,976,000 in 1991 and \$565,259,000 in 1990.

8. COMMITMENTS

At September 30, 1991, the estimated cost to complete approved Postal Service capital projects in progress was approximately \$2,500,000,000.

Total rental expense for the years ended September 30, 1991 and 1990 is summarized as follows (in thousands):

	1991	1990
Non-cancellable real estate leases		
including related taxes	\$511,200	\$492,100
Facilities leased from General		
Services Administration subject		
to 120-day notice of cancellation	35,100	34,400
Equipment and other short-term		
rentals	85,700	72,000
	<u>\$632,000</u>	<u>\$598,500</u>

At September 30, 1991, the future minimum rentals for all non-cancellable leases are as follows (in thousands):

Year	Total
1992	\$ 393,000
1993	324,000
1994	270,000
1995	216,000
1996	154,000
Thereafter	498,000
	<u>\$1,855,000</u>

Most of these leases contain renewal options for periods ranging from three to 20 years. Certain non-cancellable real estate leases have options to purchase the facilities at prices specified in the leases.

9. CONTINGENCIES

Several equal employment opportunity, employee compensation, environmental and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In the opinion of management and General Counsel, adequate provision has been made for amounts that may become due under the suits, claims, and proceedings discussed in the preceding paragraph.

REPORT OF INDEPENDENT AUDITORS

Board of Governors
United States Postal Service

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1991 and 1990, and the related statements of operations and changes in net capital deficiency and cash flows for the years then ended. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst + Young

Washington, DC
November 8, 1991

FINANCIAL HISTORY SUMMARY

	1991	1990	1989	1988	1987
	(dollars in thousands)				
STATEMENTS OF OPERATIONS					
Operating revenue	\$43,322,604	\$ 39,201,405	\$ 37,978,675	\$ 35,035,753	\$ 31,528,112
Public service appropriation	0	0	0	0	0
Revenue forgone appropriation ..	561,868	453,425	436,417	517,000	650,000
Total operating revenue	43,884,472	39,654,830	38,415,092	35,552,753	32,178,112
Salaries and benefits	36,076,230	34,214,093	32,368,364	30,478,649	27,228,844
Other expenses	7,214,553	6,275,791	6,002,394	5,640,537	5,290,845
Total operating expenses	43,290,783	40,489,884	38,370,758	36,119,186	32,519,689
Operating income (loss)	593,689	(835,054)	44,334	(566,433)	(341,577)
Retroactive assessment					
for employee benefits	(1,900,649)	-	-	-	-
Other (loss) income	(161,654)	(38,524)	16,385	(30,477)	118,891
Net (loss) income	(\$ 1,468,614)	(\$ 873,578)	\$ 60,719	(\$ 596,910)	(\$ 222,686)
BALANCE SHEETS					
Assets					
Current assets*	\$ 4,863,268	\$ 4,528,341	\$ 5,448,439	\$ 4,731,822	\$ 5,340,524
Property, plant and equipment, deferred retirement costs and other assets	38,402,182	32,976,222	31,323,509	29,940,440	26,746,689
Total assets*	\$43,265,450	\$ 37,504,563	\$ 36,771,948	\$ 34,672,262	\$ 32,087,213
Liabilities					
Current liabilities	\$ 7,400,104	\$ 6,289,805	\$ 5,897,866	\$ 5,499,569	\$ 5,603,132
Other liabilities*	30,473,907	25,824,894	25,102,649	24,020,423	21,911,231
Long-term debt	8,138,375	6,667,530	6,173,062	5,612,704	4,434,623
(Net capital deficiency) equity	(2,746,936)	(1,277,666)	(401,629)	(460,434)	138,227
Total liabilities and equity*	\$43,265,450	\$ 37,504,563	\$ 36,771,948	\$ 34,672,262	\$ 32,087,213
ANALYSES OF CHANGES IN (NET CAPITAL DEFICIENCY)EQUITY					
Beginning balance	(\$ 1,277,666)	(\$ 401,629)	(\$ 460,434)	\$ 138,227	\$ 361,868
Net (loss) income	(1,468,614)	(873,578)	60,719	(596,910)	(222,686)
Capital contributions	(656)	(2,459)	(1,914)	(1,751)	(955)
Ending balance	(\$ 2,746,936)	(\$ 1,277,666)	(\$ 401,629)	(\$ 460,434)	\$ 138,227

* Certain reclassifications have been made to 1990 amounts to conform to 1991 presentation. Prior years have not been restated due to immateriality.

IMPACT OF REVENUE FORGONE APPROPRIATION* **ON REVENUES, FISCAL YEAR 1991**

CLASSES OF SERVICE	TOTAL INCOME OF SERVICE	INCOME FROM REVENUES	INCOME FROM APPROPRIATION	APPROPRIATION AS A PERCENTAGE OF INCOME
(dollars in millions)				
First-Class Mail	\$26,648.5	\$26,648.5	none	none
Priority Mail	1,764.6	1,764.6	none	none
Express Mail	668.0	668.0	none	none
Mailgram	7.5	7.5	none	none
Second-Class Mail				
Within-the-county	\$ 115.3	\$ 88.7	\$ 26.6	23.15%
Outside-the-county				
Non-profit and classroom publications	326.5	257.8	68.7	21.03%
Regular-rate publications	1,305.1	1,304.7	0.4	0.03%
Fees	16.6	16.6	none	none
Total Second-Class Mail	\$ 1,763.5	\$ 1,667.8	\$ 95.7	5.43%
Third-Class Mail				
Single-piece rate	\$ 202.8	\$ 202.8	none	none
Regular bulk rate	7,647.0	7,647.0	none	none
Non-profit bulk rate	1,507.5	1,052.2	\$455.3	30.20%
Fees	54.0	54.0	none	none
Total Third-Class Mail	\$ 9,411.3	\$ 8,956.0	\$455.3	4.84%
Fourth-Class Mail				
Parcels (zone rate)	\$ 454.8	\$ 454.8	none	none
Bound printed matter	265.7	265.7	none	none
Special rate matter	233.7	233.7	none	none
Library materials	48.5	45.4	\$ 3.1	6.33%
Fees	1.3	1.3	none	none
Total Fourth-Class Mail	\$ 1,004.0	\$ 1,000.9	\$ 3.1	0.31%
Free mail for the blind				
and handicapped	\$ 36.0	0.0	\$ 36.0	100.00%
International Mail	1,206.0	1,206.0	none	none
Totals	\$42,509.4	\$41,919.3	\$590.1	1.39%
Adjustment for prior years			(28.2)	
Totals			\$561.9	

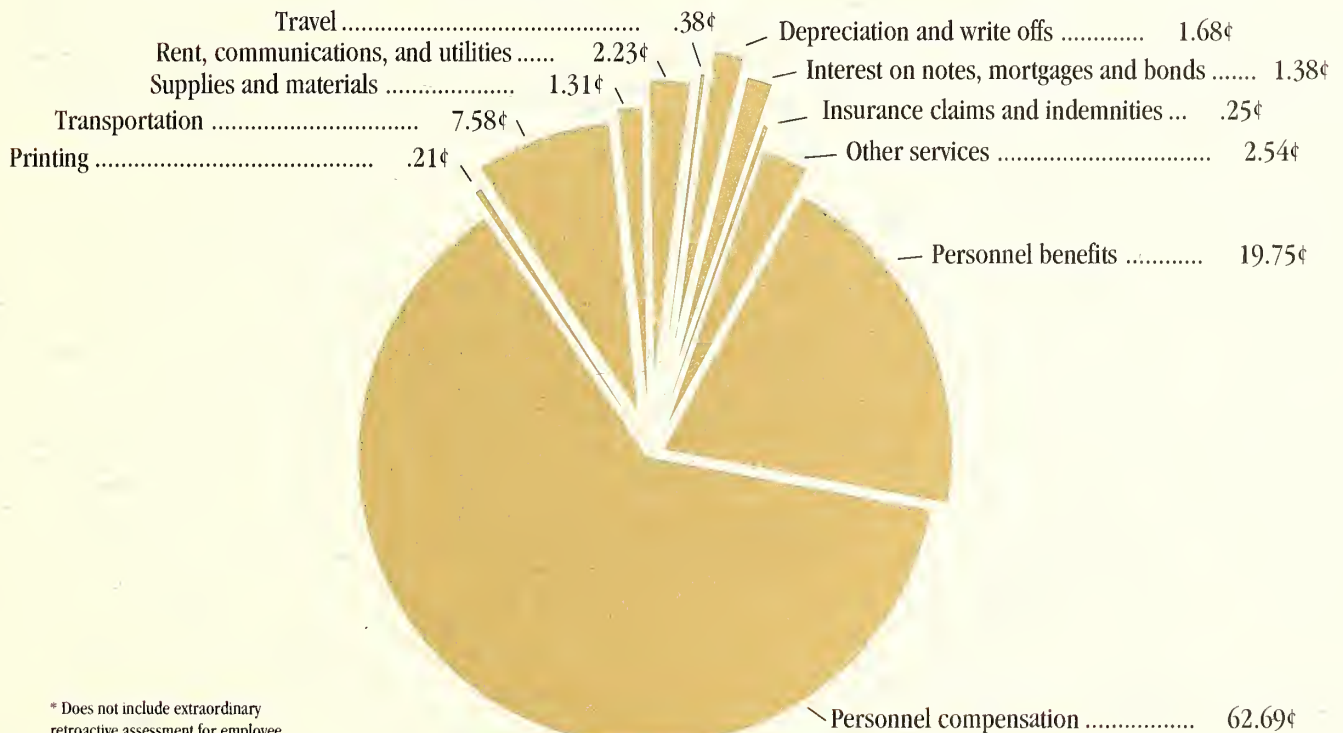
* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate in accordance with Congressional mandate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

SOURCE OF INCOME, FISCAL YEAR 1991

(dollars in millions)

Mail revenue	\$41,919.4
Special services	1,403.2
Government appropriations for free and reduced rate mail	561.9
Total operating revenue	43,884.5
Total operating expenses	43,290.8
Income from operations	593.7
Interest income	317.7
Interest expense	(479.4)
	432.0
Extraordinary retroactive assessment for employee benefits	(1,900.6)
Net loss	(\$ 1,468.6)

ANALYSIS OF EXPENSES, FISCAL YEAR 1991 *



* Does not include extraordinary retroactive assessment for employee benefits.

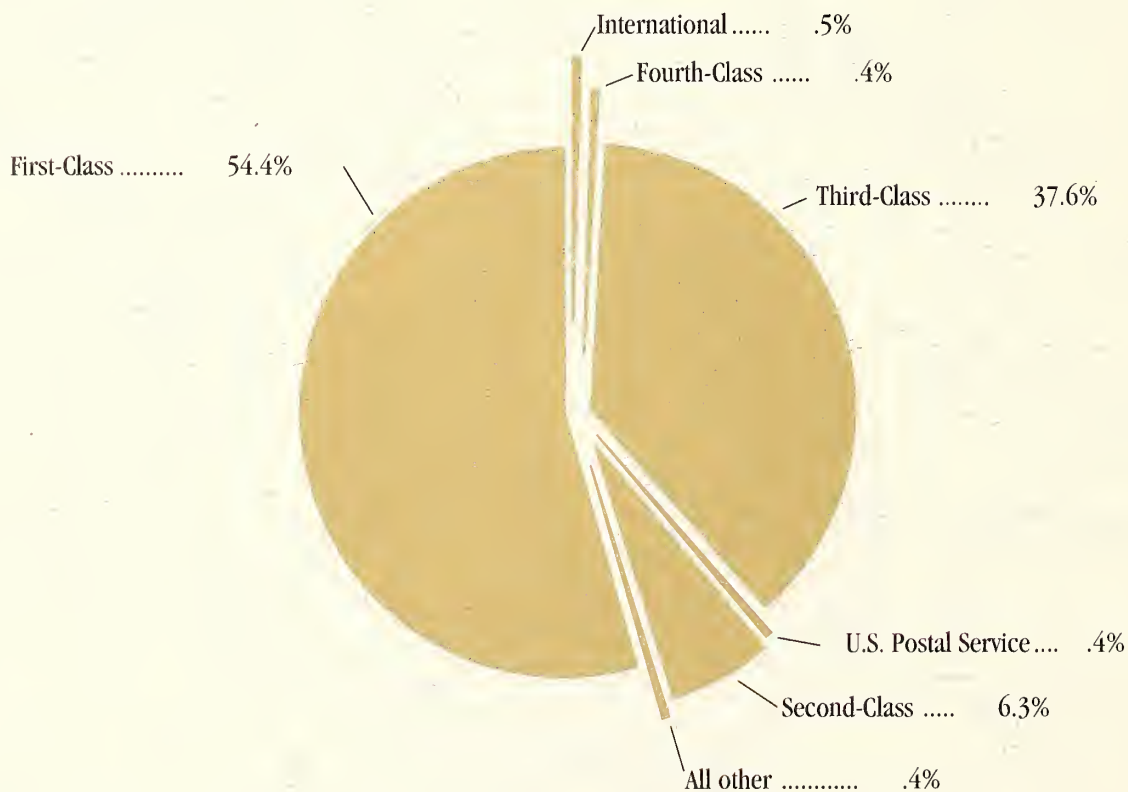
ANALYSIS OF MAIL VOLUME, FISCAL YEAR 1991

	(pieces in billions)		PERCENT CHANGE
	1991	1990	
First-Class	90.28	89.27	1.1
Second-Class	10.40	10.68	-2.6
Third-Class	62.43	63.73	-2.0
Fourth-Class .....	.70	.66	4.9
U.S. Postal Service .....	.61	.54	13.8
International .....	.79	.80	-.7
All other .....	.64	.63	1.6
Total Mail	165.85	166.31*	-3

* Rounding the various classes of mail causes the total volume figure to exceed the Fiscal Year annual mail volume of 166.30 billion pieces.

COMPOSITION OF MAIL, FISCAL YEAR 1991

(PERCENT OF TOTAL, VOLUME BY CLASS)



OPERATING STATISTICS

	1991	1990	1989	1988	1987
(in thousands of units indicated)					
FIRST-CLASS					
Pieces, number	90,284,596	89,269,649	85,855,458	84,749,464	78,869,309
Weight, pounds	3,398,026	3,339,790	3,216,108	3,174,064	2,970,439
Revenue	\$26,648,534	\$24,023,323	\$23,234,417	\$21,402,234	\$18,786,027
PRIORITY MAIL					
Pieces, number	530,407	517,850	470,831	436,735	354,331
Weight, pounds	1,017,227	1,007,067	939,318	924,666	763,085
Revenue	\$ 1,764,601	\$ 1,554,656	\$ 1,415,820	\$ 1,329,170	\$ 1,085,636
EXPRESS MAIL					
Pieces, number	57,968	58,582	53,308	45,628	41,531
Weight, pounds	107,158	112,451	98,810	84,592	76,832
Revenue	\$ 667,988	\$ 630,707	\$ 571,992	\$ 523,804	\$ 498,733
MAILGRAM					
Pieces, number	11,942	14,001	16,871	19,617	21,900
Revenue	\$ 7,452	\$ 8,477	\$ 10,193	\$ 11,831	\$ 13,361
SECOND-CLASS					
Pieces, number	10,399,202	10,680,469	10,523,374	10,483,435	10,324,309
Weight, pounds	4,014,545	4,233,113	4,169,919	4,118,140	4,012,421
Revenue	\$ 1,667,801	\$ 1,509,346	\$ 1,519,267	\$ 1,400,115	\$ 1,279,847
THIRD-CLASS					
Pieces, number	62,429,896	63,725,110	62,779,116	63,249,821	59,733,198
Weight, pounds	7,386,612	7,648,088	7,478,767	7,651,602	7,155,038
Revenue	\$ 8,956,031	\$ 8,082,377	\$ 7,923,511	\$ 7,311,334	\$ 6,147,551

OPERATING STATISTICS

	1991	1990	1989	1988	1987
(in thousands of units indicated)					
FOURTH-CLASS					
Pieces, number	695,393	662,977	625,932	673,769	615,230
Weight, pounds	2,074,460	2,109,342	2,196,129	2,335,516	2,178,673
Revenue	\$ 1,000,945	\$ 919,540	\$ 908,432	\$ 929,435	\$ 822,917
INTERNATIONAL SURFACE					
Pieces, number	146,464	165,901	165,799	176,352	266,966
Weight, pounds	133,952	146,216	139,443	137,986	148,138
Revenue	\$ 221,439	\$ 222,123	\$ 216,848	\$ 192,884	\$ 205,896
INTERNATIONAL AIR					
Pieces, number	646,338	632,364	558,056	549,874	510,850
Weight, pounds	102,077	102,397	88,465	84,511	67,774
Revenue	\$ 984,573	\$ 941,078	\$ 864,308	\$ 798,750	\$ 751,256
PENALTY*					
Pieces, number	—	—	—	—	2,644,744
Weight, pounds	—	—	—	—	452,841
Revenue	—	—	—	—	\$ 844,158
FRANKED*					
Pieces, number	—	—	—	—	507,019
Weight, pounds	—	—	—	—	13,875
Revenue	—	—	—	—	\$ 63,164
U.S. POSTAL SERVICE**					
Pieces, number	612,545	538,427	527,791	530,402	—
Weight, pounds	79,624	97,388	66,323	64,014	—
FREE FOR THE BLIND					
Pieces, number	35,859	35,440	26,728	38,528	41,187
Weight, pounds	26,299	30,235	18,463	30,756	41,999
TOTALS					
Pieces, number	165,850,610	166,300,770	161,603,264	160,953,625	153,930,574
Weight pounds	18,339,980	18,826,087	18,411,745	18,605,847	17,881,115
Revenue	\$ 41,919,364	\$ 37,891,627	\$ 36,664,788	\$ 33,899,557	\$ 30,498,546

*Beginning in Fiscal Year 1988, Penalty and Franked mail are included in their classes of mail. Volume data for 1987 is not comparable with later years.

**Beginning in Fiscal Year 1988, U.S. Postal Service official mail, formerly included with Penalty mail, is shown separately.

OPERATING STATISTICS

SPECIAL SERVICES	1991	1990	1989	1988	1987
(in thousands of units indicated)					
REGISTRY					
Number of articles					
(paid and free)	41,190	45,312	48,939	50,280	52,427
Revenue	\$ 147,250	\$ 173,725	\$ 181,270	\$ 184,808	\$ 159,514
CERTIFIED					
Number of pieces					
(paid and free)	209,033	191,032	176,540	176,755	160,602
Revenue	\$ 362,370	\$ 309,652	\$ 284,394	\$ 260,897	\$ 222,973
INSURANCE					
Number of articles					
(paid and free)	35,645	33,102	34,878	35,151	40,006
Revenue	\$ 54,234	\$ 47,250	\$ 48,869	\$ 48,175	\$ 51,733
COLLECTION-ON-DELIVERY					
Number of articles	8,690	9,926	10,049	9,604	10,405
Revenue	\$ 25,577	\$ 26,093	\$ 26,993	\$ 20,678	\$ 19,569
SPECIAL DELIVERY					
Number of articles					
(paid and free)	2,101	1,161	2,212	5,311	8,440
Revenue	\$ 14,441	\$ 6,345	\$ 12,042	\$ 20,196	\$ 25,144
MONEY ORDERS					
Number issued	162,453	155,141	150,407	144,049	141,977
Revenue fees	\$ 148,146	\$ 154,588	\$ 147,771	\$ 141,510	\$ 147,525
OTHER					
Box rent revenue	\$ 412,625	\$ 393,807	\$ 362,318	\$ 295,630	\$ 273,262
Stamped envelope revenue	\$ 12,955	\$ 25,181	\$ 15,883	\$ 22,927	\$ 18,434
Other revenue, net	\$ 225,642	\$ 173,137	\$ 234,347	\$ 141,375	\$ 111,412
TOTALS					
Special services revenue	\$ 1,403,240	\$ 1,309,778	\$ 1,313,887	\$ 1,136,196	\$ 1,029,566
Mail revenue	\$41,919,364	\$ 37,891,627	\$ 36,664,788	\$ 33,899,557	\$ 30,498,546
Operating revenue	<u>\$43,322,604</u>	<u>\$ 39,201,405</u>	<u>\$ 37,978,675</u>	<u>\$ 35,035,753</u>	<u>\$ 31,528,112</u>

OPERATING STATISTICS

	1991	1990	1989	1988	1987
EMPLOYEES*					
Headquarters—L'Enfant Plaza	2,408	2,291	2,278	2,323	2,112
Headquarters—Field Support Units	5,715	5,691	5,882	5,703	5,820
Inspection Service (field)	4,316	4,259	4,276	4,176	4,300
FIELD CAREER EMPLOYEES					
Regional Offices	559	542	431	437	432
Postmasters	27,100	26,995	27,242	27,846	27,809
Supervisors	43,801	43,458	44,793	44,401	43,297
Prof. Admin. Tech. Personnel	9,888	9,793	10,528	10,587	10,620
Clerks	280,918	290,380	300,908	304,120	303,470
Nurses	296	286	318	332	329
Mail Handlers	50,770	51,123	52,295	51,855	50,718
City Delivery Carriers	232,182	236,081	240,159	240,276	233,516
Motor Vehicle Operators	7,265	7,308	7,357	7,326	7,221
Rural Delivery Carriers & Substitutes					
on Unassigned Routes	42,876	42,252	40,802	39,489	36,955
Special Delivery Messengers	1,870	2,012	2,142	2,191	2,256
Bldg. & Equip. Maintenance Personnel	34,166	33,323	33,348	33,119	31,713
Vehicle Maintenance Personnel	4,831	4,874	4,956	4,902	4,770
Total Career Employees	<u>748,961</u>	<u>760,668</u>	<u>777,715</u>	<u>779,083</u>	<u>765,338</u>
NON-CAREER EMPLOYEES					
Casuals	25,666	26,829	21,209	32,424	14,483
Non-Bargaining Temporary	548	414	371	286	308
Rural Subs/RCA/RCR/AUX	44,020	43,373	42,355	41,122	38,987
PM Relief/Leave Replacements	12,198	11,979	11,902	11,987	11,675
OFFICES, STATIONS, AND BRANCHES					
Number of post offices	28,912	28,959	29,083	29,203	29,319
Number of stations and branches:					
Classified stations and branches	5,029	5,008	4,958	4,957	4,910
Contract stations and branches	4,427	4,397	4,297	4,294	4,087
Community post offices	1,617	1,703	1,693	1,663	1,714
Total	<u>11,073</u>	<u>11,108</u>	<u>10,948</u>	<u>10,914</u>	<u>10,711</u>
Grand total	<u>39,985</u>	<u>40,067</u>	<u>40,031</u>	<u>40,117</u>	<u>40,030</u>

* Complement data has been revised to conform with current method of counting career on-rolls employees using On-Rolls and Paid Employees statistics data base.

HIGHER CUSTOMER SATISFACTION

- Completed first year of external service measurement, improving overnight First-Class delivery performance over previous year.
- Worked with customers to grow discount prebarcoded mail volume over 500%.

COSTS BELOW INFLATION

- Reduced career employment, without layoffs, by almost 39,000 from peak in May 1989, resulting in a savings of \$1.1 billion in wages and benefits alone.
- Settled first four-year labor contract providing cost restraint, work force flexibility, fair wages and benefits.
- Launched the nation's largest recycling program, projected to save the American people more than \$40 million annually.

RENEWED EMPLOYEE COMMITMENT

- Initiated Striving for Excellence Together (SET), the first program providing incentive payments to employees for gains in financial improvement and customer satisfaction.
- Joined with the three management associations representing postmasters and supervisors to present first joint awards for outstanding efforts in participatory management.
- Provided more than 11 million hours of training to employees.



recycled paper

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“... we deliver.”